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THE MAGAZINE OF CORPORATE MANAGEMENT
BUSINESS MONTH
NOVEMBER 1989 $3.00

Take Our FAXPOLL
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The Maypo Culture

An Impatient America Wants It All NOWWW. It's Up to Corporate America to Say NO.

Upjohn's Hair-Raising Adventure–Selling The Drug Minoxidil

Corporate Giving– Does a Handout Really Help Anyone?

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LETTERS

CUI BONO?

Among the assumptions that are not necessarily accurate in James E. Challenger's article "It's Time to Get Rid of Severance" (September) are that all discharged employees receive outplacement services and that all managers are capable of making an unbiased, legally defensible decision regarding the sincerity of each displaced employee's effort to locate new employment.

As a human-resources executive with a bottom-line orientation and almost 20 years of corporate experience, I've both written and received severance checks. Competent people, faced with even a hint of losing their jobs, often begin their searches well before the ax falls. The cost, in terms of the productivity lost as they are looking, should certainly be weighed against the cost of a severance plan that provides some measure of security: A lump sum does let you know just how much you have to work with.

Under Challenger's staggered severance plan, we could end up providing severance only to those savvy individuals who know how to "prove" they're looking for a job. Further, the administration of such a plan, particularly when large numbers of employees are being displaced, sounds like an administrative nightmare but could, perhaps, provide permanent employment for the outplacement people.

SALLY McKINNEY
New York City

WHERE'S JACKIE ROBINSON?

"Here Are the Women to Watch in Corporate America" (April) featured 100 profiles of women who are managers or who have the potential to become top managers within their industries. With this in mind, I am outraged by the publication of "Management Dream Team" (September), because this list contains only white men. The omission of both women and minorities from the dream team is a serious error and perpetuates the sexism and racism in- and outside the business world. As a leading business magazine, BUSINESS MONTH should strive to challenge stereotypes.

EVA M. SCHLESINGER
Somerville, Massachusetts

ETHICS REDUX

Leonard Silk, in his column on entrepreneurial ethics (September), urges business schools to turn out ambitious, energetic leaders who not only have vision and imagination but also ethical values. This is undoubtedly the goal of business schools, but personalities are not as easily altered as he seems to think. Ironically, another article in the same issue ("The Miracle of Theory Q") praised a risk taker who used a "rubber $10,000 check" for a deposit on his dreams. Not only is this unethical; it is also a crime.

It has become the vogue to charge our lack of competitiveness and ethical behavior to our failing business schools rather than to the business community. As a recent MBA graduate, I urge the business community to step back and take a look at itself before casting blame on the degree.

LYNN RYDER
Norcross, Georgia

ENABLING THE DISABLED

In "Disabled Win at Pizza Hut" (September), Steve Zivolich, a consultant for Integrated Resources, is quoted as saying that social service agencies "often have the attitude that these people aren't capable of working." I object to that statement. That was private industry's attitude until recently. Social service agencies have long been trying to provide vocational rehabilitation services to the disabled with the goal of competitive employment in all types of industry.

JOHN E. GILROY
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Address letters to Letters Editor, BUSINESS MONTH, 488 Madison Avenue, New York, NY 10022. All letters for publication must include the writer's name, address, and telephone number.

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OFFICE FAX

Overtime's A-Wasting

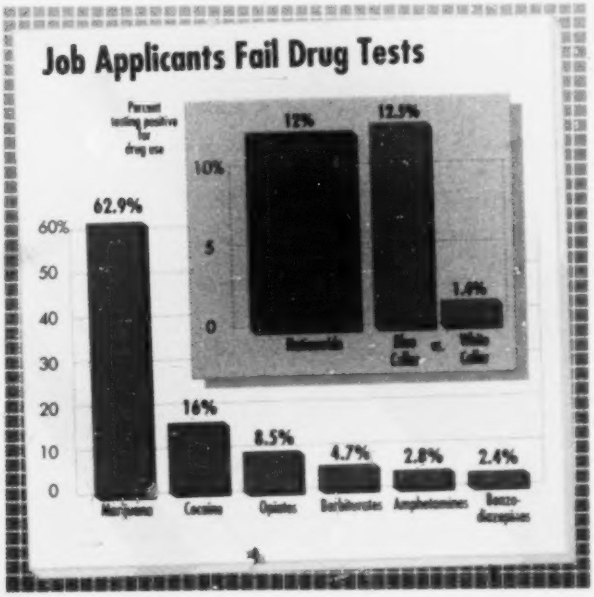
A LARGE MAJORITY OF executives agree that extra hours on the job are unavoidable. Nothing newsworthy there. But it turns out that 85 percent also feel their overtime is not cost-effective, according to a study by the American Productivity and Quality Center. Most executives say they poop out after about 10 hours. Over 90 percent say they are more productive if the extra hours are put in during the week, and three-quarters say they like to take a lunch break, even if it means staying later.

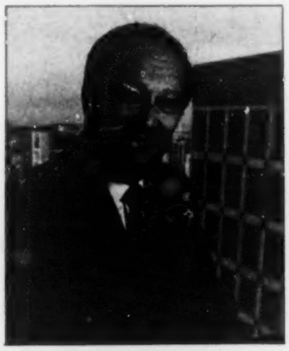
The APQC did not ask about putting in hours after dinner, but a study among telephone company workers showed that this time, too, was mostly wasted. Many a bleary-eyed young fast-tracker would undoubtedly tell you the same thing, once he was comfortably out of the boss's earshot. —*CRAIG MELLOW*

Getting Drugs Out of the Workplace

EVEN WHEN JOB APPLICANTS know ahead of time that they are going to be tested for drug use, 12 percent fail. These woeful statistics were compiled by Poull Brien, president of Bio-Analytical Technologies, Inc., in Chicago, and are based on an 8,000-person sample drawn randomly from preemployment screenings his firm has done for dozens of corporate clients during the past year. "These figures are just the tip of the iceberg," he says, "since the applicants should have been prepared for the test. The real usage, especially for white-collar applicants, is unquestionably much higher."

—*STEPHEN W. QUICKEL*





Thomas Field managed McKesson his way, and it cost him his job.

AT THE TOP

The Lonesome Stranger

THE CORPORATE LADDER is always slippery. But perhaps it is slipperiest of all for the CEO brought in from outside the company. Certainly John Stafford at Pillsbury and David Chapman at Cullinet Software found it so: Both left within two years of taking over. The latest outsider to hit the skids is Thomas Field at San Francisco's McKesson Corp.

Field stayed the course for five years, the first two as president, then as CEO, and from all outward appearances, he did a good job. Sales rose 46 percent and profits 33 percent.

His problems were more style than substance. An outsider taking charge is always resented, Field more than most. A career-long supermarket man (most recently as president of American Stores), he simply didn't fit with the wing-tip-shoe types at McKesson. He liked to poke into every part of the company, to shake things up. But when he questioned senior executives' expense accounts and began canceling magazine subscriptions, directors wondered if he shouldn't have better things to do.

The final showdown came over the company's newest venture, PCS, Inc., which processes drug claims for insurance companies at cut-rate prices. Field liked its growth potential, but investors didn't like the conflict of interest with McKesson's drugstore customers, who want to keep drug prices high. The disagreement gave detractors the excuse they needed to force him out.

What now? Don't look for the board to bring in another outsider, says one McKesson source. —*S. W. Q.*

COMPETITIVE EDGE

Having Your Chart Read?

THE HOTTEST NEW READ among executives this year isn't, as one might expect, *Leadership Secrets of Attila the Hun*. It is the Conference Board's collection of corporate organization charts.

The funny thing is, the collection has been around since Harry Truman was president, and nobody paid it much mind until now. "All of a sudden, you've got guys calling up screaming, 'I'm gonna send my courier right over. Have those charts ready,' " says the board's communications director, Randall Poe.

Why, we wondered; is chart reading a powerful new competitive tool or just another fad? To find the answer, we set out to examine the board's 5,000-chart collection.

First of all, they can be surprisingly enlightening.

CHART: GRAPHIC CHART & MAP CO. INC; PHOTOGRAPH: ED KASHI

Self-interest is guiding the corporate handouts of today—leaving some worthy causes out in the cold.

WHAT'S IN IT FOR ME?

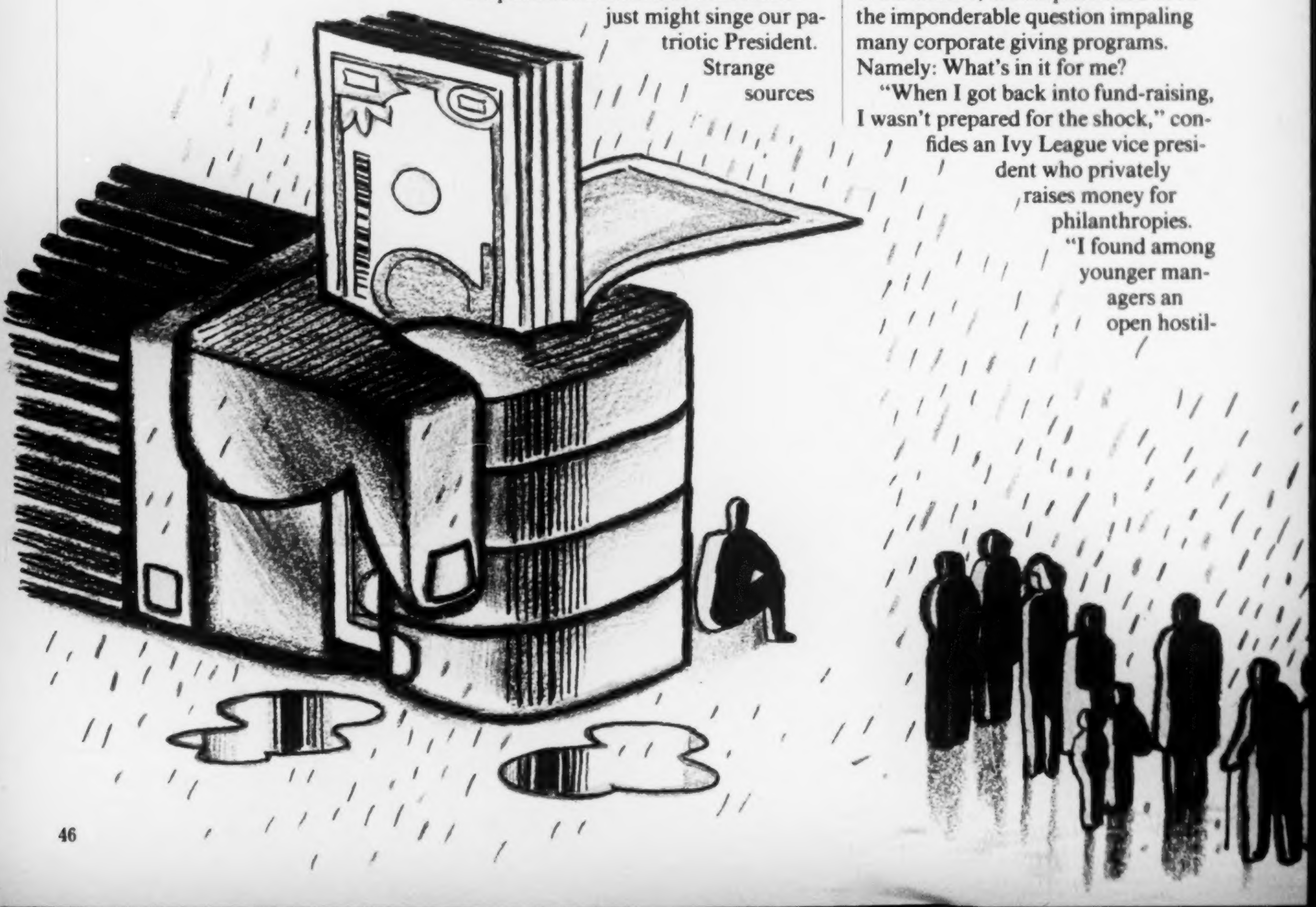
BY P.J. CORKERY

ARE THOSE THOUSAND points of light really throwing off any heat? Everyone remembers George Bush's way of characterizing a uniquely American impulse to perform good works—with no expectation of a payback. Businesses, somehow, were supposed to be part of that vast altruistic glow. Are they doing a good job stoking the embers?

Sort of. The lights are burning in corporate America. But their flicker just might singe our patriotic President. Strange sources are powering those lights—things like self-interest, accountability, and something only the image makers on Madison Avenue could concoct: cause-related marketing.

Always an uneasy alliance between philanthropy and publicity, corporate giving is in a critical transition these days. Total spending isn't the problem: At about $5 billion, charity isn't close to extinction, despite the dire prediction of foundations following passage of the Tax Reform Act of 1986. Rather, the culprit seems to be the imponderable question impaling many corporate giving programs. Namely: What's in it for me?

"When I got back into fund-raising, I wasn't prepared for the shock," confides an Ivy League vice president who privately raises money for philanthropies. "I found among younger managers an open hostil-



ity toward corporate giving." Why? "The idea today is to be a real bottom-line person," he says. "They come charging into the room in their dress-for-success suits and Nike sneakers, snarling at us poor fund-raisers. These new guys are keyed only to mergers, acquisitions, and asset management."

Once considered the whim of CEOs—or of their spouses—corporate giving these days is often a standard business expense for which results must be shown. That may well be a step up from Milton Friedman's maxim that a corporation is a good citizen when it devotes itself exclusively to making a profit. But face it: Most good works can't be measured.

The clamoring for accountability isn't all bad. Companies are now doing a better job selecting their targets. Their efforts tend to be more focused. While IBM has cut way back on total giving, it has maintained support to job-development programs and engineering scholarships. Employee volunteerism and matching funds are way up.

The Samaritan Seven

The biggest do-gooders and some of their pet causes

IBM	$135.4*	Who knows? Access denied
General Motors	54.6	University of Michigan, GM Cancer Research Foundation
Exxon	53.0	NJ Science/Technology Ctr., Community Summer Job Programs
Hewlett-Packard	50.4	MIT, Stanford University Hospital
RJR Nabisco	47.5	Second Harvest National Food Bank, Duke University
Du Pont	36.7	University of Delaware, West End Neighborhood House
AT&T	36.5	Stanford University, National Urban League

*Total corporate giving in 1988

For good or ill, corporations are aiding the process of natural selection in social causes. Dominant species these days are education (elementary, secondary public schools, and adult literacy programs have toppled colleges), health care and human services (read: AIDS research instead of hospitals), and community and civic affairs (crime-watch groups and day-care centers are especially hot).

Another twist: It's become fashionable not only to throw money at a problem but actually to *manage* the program with live corporate staff.

That hands-on approach has produced some curious success stories. Time Warner Inc., for instance, has found a way to help combat illiteracy and further long-term corporate objectives by selling its Time to Read program—tapes and lesson plans using *People* and *Time* as models of literacy—to other corporate sponsors, schools, and government agencies.

Easily the most hackle-raising fashion in corporate giving is cause-related marketing, in which a company contributes to a cause when you buy its products. Ben Cohen, of Ben & Jerry's fame, recently formed a company that will give 40 percent of its profits from Rainforest Crunch, a newly introduced brittle, to a fund to protect the ravaged Amazon forests. The chic trend started with American Express's promise to fork over a fraction of its credit-card revenues to restore the Statue of Liberty. It was a dandy way to identify the company with patriotism—and to account for what was more a marketing expense than a charitable donation.

But image-boosting efforts can also backfire in a big way. Remember when Coca-Cola raised $5 million for Hands Across America, a 3,000-mile human chain to symbolize the nation's concern for the homeless and hungry? All that dough went toward setting up the event; not a penny went to those who needed help. Which brings up another liability of cause-related giving: It passes over a lot of deserving but decidedly low-profile causes. After all, most corporations would rather underwrite a major PBS series than contribute to the restoration of a local opera house or theater.

Still, the most amazing thing about corporate giving is its stubborn, cockroachlike durability. Oppressive debt wrought by LBOs, acquisitions, and defense maneuvers has taken a big whack at philanthropy. But at some companies, such as Pillsbury—acquired last January by Grand Metropolitan PLC—foundations have endured pretty much intact.

That should come as no surprise. Philanthropy has been inextricable from American business since pre-Revolutionary War days, when the colonies themselves were businesses and largess was a way of encouraging settlement and prosperity. Captains of industry gave generously, often out of a sense of stewardship and a desire to return something to the community that allowed them to flourish.

It's been said that the greatest boon to philanthropy is the vanity of the rich, many of them successful pliers of capitalism, and a passion to be as immortal as the pharaohs. Most corporations today have a much shorter-term notion of immortality. Cost-cutting and bottom-line thinking have hardened vanity into self-interest.

Maybe that's not such a bad thing after all. Even at its narrowest, self-interest manages to accomplish *some* good. When the Traveler's goes into the inner-city high schools of Hartford, Connecticut, to convince minorities to become actuaries, what's the harm? So what if Ben Cohen sells more candy, if a few more Brazilian trees are saved in the process?

Point is, you can't tell corporations what's in their best interest. If you tried, through regulation or protest, you might very well extinguish all those points of light.

P.J. Corkery, who also writes for Spy, *plans to donate portions of himself to the Peabody Museum.*

ILLUSTRATIONS BY DAVID SUTER

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THE 5 BEST MANAGED COMPANIES

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LETTERS

WHOSE OX IS GORED

Stuart Weiss's article "Locked Out" (October) came at a bad time for me and my family. My husband, Michael, was with BIC for 13 years, the last three as western regional sales manager. While in divorce court in 1983, Michael received a call from a secretary in the corporate office in Milford, Connecticut, asking him to meet an upper-level executive at the airport in San Francisco. Michael knew what that meant: BIC always fired people in airports. He sued the company and, five years later, after an appeal in the California District Court of Appeals, lost the case because in 1972 he had signed an application for employment in which it was stated that BIC could fire him for any reason at any time.

And here Stuart Weiss writes about executives *who are stuck in jobs paying $75,000 to $150,000 per year.* Oh, poor dears. If you know of one of those jobs that is available today, please get in touch with Michael.

KATHLEEN B. SHACKMAN
Boynton Beach, Florida

AN AMORAL DILEMMA

Leonard Silk's response to my earlier letter in his article "Does Morality Have a Place in the Boardroom" (October), was generous, even in areas of disagreement. I would, however, like to add another word—with equal grace, I hope, and without belaboring the issue of corporate amorality (as per the first definition in the dictionary).

To disagree with Silk's closing contention that "the name of the game in a free society is trust, voluntarily given or voluntarily withdrawn" is paramount to opposing motherhood and the flag. Yet I must! We live in a democratic society in which elected lawmakers are charged with the responsibility for framing laws that impose the electorate's perception of right and wrong on our entire society, including organizations. There is a lack of trust implicit in this system that reflects unhappily on our collective character but that is realistic—cynical perhaps, but realistic.

I have no reason to believe that corporate executives are morally inferior to bricklayers, taxi drivers, or writers of letters to the editor, but they are certainly more frequently confronted by much greater temptations involving less clearly defined moral choices. Under such circumstances, it is only reasonable to limit these executives' responsibility to the maximization of return to investors by all means that comply with any applicable law. To rely on them, in the absence of such law, to abide by their own ethical standards is foolhardy.

MICHAEL L. PEARCE
East Windsor, New Jersey

Leonard Silk's article "Does Morality Have a Place in the Boardroom" should be required reading for every would-be corporate board member. A corporation does have a conscience. It is, in fact, the collective conscience of the shareholders (as represented by its elected board). Therefore, the shareholder can never be totally innocent of the wrongdoing of the corporation.

In a healthy society, profitability is moral only if it is gained while obeying the rules of right conduct. A board member must recognize this as the best long-term profit view for his corporation even if no higher motive inspires him.

The shareholder must realize that he is also the consumer, as the politician is also the constituent and the employer is also the employee. And both suffer when the rules of right conduct are ignored. Silk's remark that "ethical principles . . . constitute one of the strongest forces for keeping a society healthy and growing" is also true of corporations.

BRYAN T. HOGAN
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FAXPOLL FEEDBACK: AN ETHICAL DOUBLE STANDARD

We introduced the FaxPoll to start a dialogue with our readers about the crucial issues confronting top management. And, as shown on this page, you have a lot to say. Our first FaxPoll, on corporate ethics, drew more than 1,300 responses—some just plain opinionated, others impassioned, a few outraged. You may be surprised at just how corporate America thinks it should behave.

1 Is capitalism wearing a different face these days? An astonishing 68.5 percent of you strongly agreed with the idea that ethical conduct should be as important to a company as the pursuit of profits; 28.6 percent simply agreed.

Just a handful of respondents felt otherwise: 1.4 percent disagreed with the statement, and 0.5 strongly disagreed; 1.1 percent of you were undecided. One reader lamented, "This country has gone downhill since Richard Nixon was let off so easy."

2 As you'd expect, an overwhelming majority—97.6 percent—turned thumbs down on drug makers who lied to the FDA. The number-one objection (46.2 percent): that dishonesty is just plain wrong. "After so many white lies," wrote one respondent, "you become color-blind."

A close second (43.3 percent) was the concern that consumers' lives were at stake. Some thought cheating was bad for business, a surefire way to kill one's reputation. Lying, wrote one subscriber, "is the death rattle of any company's management." A few resorted to a higher authority: "The wages of sin is death." "It violates God's will." "See Exodus 20:16. Thou shalt not bear false witness."

Some readers readily forgave the generic-drug makers. As a government bureaucracy, they cynically reasoned, the FDA deserves to be swindled. Cheating, claimed a subscriber, "is the only way to beat the other bastards."

3 A few audacious souls (3.6 percent) admitted they would either always or often bend the rules. Nearly 55 percent claimed they'd *never* take such action.

The real story lies in the 41.6 percent of our readers who marked off "occasionally." Among that crowd were supposedly strict moralists: Fully one-third of the folks who strongly agreed that ethics were as important as profits conceded they'd lapse occasionally to save their hides.

4 By far the most egregious offense was "taking credit for someone else's accomplishment" (56.5 percent). "Playing dirty tricks on a competitor" was a distant second, with only 27 percent of our readers ranking it as the number-one infraction. Right behind that was "cheating on an expense report" (23.3 percent). "Lying to protect a friend" garnered a mere 15.1 percent. The least offensive peccadillo: "paying bribes in a country where it's the accepted custom" (13.9 percent). Nearly half of the strict moralists who strongly agreed that ethics are as important as profits weren't overly troubled by paying bribes abroad. Maybe they simply forgot that it's a federal offense.

5 A whopping 62.3 percent thought Time's CEO behaved unethically; 4.1 percent came to his defense. Significantly, 33.6 percent checked off "don't know," with some telling us we didn't provide enough info. They're absolutely right.

THE BUSINESS MONTH

FAXPOLL

Do you know right from wrong?

1. Corporate ethics should be as important a priority as profits.

2. In an overzealous attempt to help their companies, officials at two generic-drug makers lied to the FDA. Is this kind of dishonesty ever acceptable?

3. It's okay to bend the rules if the survival of your job is at stake.

4. How would you rank the following infractions?

______ cheating on an expense report
______ playing dirty tricks on a competitor
______ taking credit for someone else's accomplishment
______ paying bribes in a country where it's the accepted custom
______ lying to protect a friend

5. Although he voted to deny shareholders a lucrative $200-a-share takeover offer, Time Inc.'s CEO entered into a different merger deal guaranteeing himself a 10-year contract for at least $14.6 million. Was this ethical?

The margin of error is plus or minus 3.3 percentage points.

EARLY RETURNS: SOFT ON DRUGS?

Most of our managers may not be that tough after all—at least when it comes to drugs. A majority of you seem to feel the best way to deal with a drug-using subordinate is to convince him to seek counseling. That's what 1,000 of you told us in the first week of November alone. Only a couple suggested firing the offender on the spot. Many are in favor of drug testing at the office. Most astonishing to us is your knowledge—or lack of it—about addiction at the workplace. Next month, in our full report, you'll find out how high up the chain of command drug abuse extends.

RPORATE MANAGEMENT

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Does Japan Own You?
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Quest
r Redemption

The Quality Bullies And Their Crusade For Zero Defects

The Robo-Boss: Building the New High-Tech Manager

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FAXPOLL FEEDBACK: HARD ON DRUGS, SOFT ON USERS

You gave our fax machines quite a rush when you answered our poll on drugs at the office. A thousand responses coursed through our phone lines in the first week alone. Many of you wrote of your anger, fear, resentment, and confusion when it comes to the addicted employee. Only 10 readers claimed they worked in drug-free environments. Why didn't we include substances like alcohol, tobacco, and nicotine? Drugs, we felt, were a big enough problem to warrant an exclusive survey.

THE BUSINESS MONTH

FAXPOLL

How tough are you?

1. You've just discovered that a trusted and valuable subordinate is an addict. Do you:

____ pretend ignorance and do nothing
____ convince him to seek counseling
____ put him on leave without pay
____ fire him on the spot
____ report him to the police
____ other (please specify)

2. a. A corporation should pick up the tab to rehabilitate an employee with an addiction problem.
b. A company should pay to rehabilitate an employee's family member.

3. Outside the office, limited recreational use of drugs is okay.

4. Would you support a 0.5 percent surcharge on individual and corporate income taxes to fight drug abuse?

5. Within your company, how far up the chain of command does drug use extend?

6. Drug testing at the workplace is the best form of prevention.

The margin of error is plus or minus 3.3 percentage points.

1 Maybe you're not so tough: 77.4 percent said that if you discovered a trusted subordinate was an addict, you'd convince him to seek counseling. Only 7.4 percent suggested putting him on leave without pay. But there were a few hard-boiled types: 5.6 percent claimed they'd fire him on the spot ("To kill a snake, cut off its head," wrote one respondent); 2.2 percent insisted they'd call the cops. One reader urged, "Torture the person in front of all his or her coworkers."

2 A hefty 69.5 percent thought the company should pick up the rehab tab on a case-by-case basis for employees, 17.2 percent said never; 13.3 percent said always. But in the case of an addicted family member, nearly half (48 percent) of you checked off "never"; 45.4 percent advised on a case-by-case basis; while only 6.5 percent said always.

3 Our readers have either quit Sergeant Pepper's Band or never joined: 68.7 percent strongly disagreed with the idea that it was okay to play with drugs outside the office; another 18.1 percent disagreed. A mere 1.7 percent strongly agreed with limited use; 6 percent agreed. "It depends on the drug," wrote one subscriber. "Marijuana is okay and should be legalized." Then, in case we missed the point, he added, "Legalize marijuana." *Right.*

4 Almost half of you (46.7 percent) wouldn't support a surtax (versus 35.1 percent who would), mostly because you don't think the Government can win the war against drugs. Lots were undecided: 18.2 percent didn't know whether they'd back the tax, and 1.3 percent didn't respond.

5 It's amazing how few of you really know what's going on under your nose: 64.8 percent claimed they didn't know how far up the chain of command drug abuse extends at their companies. Hourly workers were singled out by 12.6 percent of you. But here's the real shocker: 21.5 percent pointed the finger at middle managers (12.1 percent), executive VPs (5.3 percent), and the CEO or president (4.1 percent).

6 The best place for America to begin kicking the habit is at the office: 59.8 percent of you voted yes to drug testing. The chief reason? So that users, once identified, can get help. Close behind was the potent threat of job loss. Next were concerns about the safety of innocent workers. Testing, many declared, sends an unambiguous message: "Don't spout civil rights," wrote a surly reader. "When you use, you lose." Many proposed random testing to prevent abusers from outsmarting the system. One subscriber groused: "I don't want dopers lousing up the company we built while sober!"

Of the 40.2 percent of you who said no to testing, most pleaded invasion of privacy or violation of constitutional rights. Many argued that education is the only real prevention.

EARLY RETURNS: SHAME ON WOLF!

Pity Steve Wolf of United Airlines. Most initial respondents to December's poll blasted his quick-payoff LBO. What's behind the epidemic of short-term thinking? A sizable number of you are blaming your own self-interest. What's the best way to strengthen corporate America? We'll have that answer for you next month. Hint: Adam Smith may be turning over in his grave. Meanwhile, is America selling out to Japan? Take this month's FaxPoll on page 80.

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THE MAGAZINE OF CORPORATE MANAGEMENT

BUSINESS MONT

FEBRUARY 1990 $3.00

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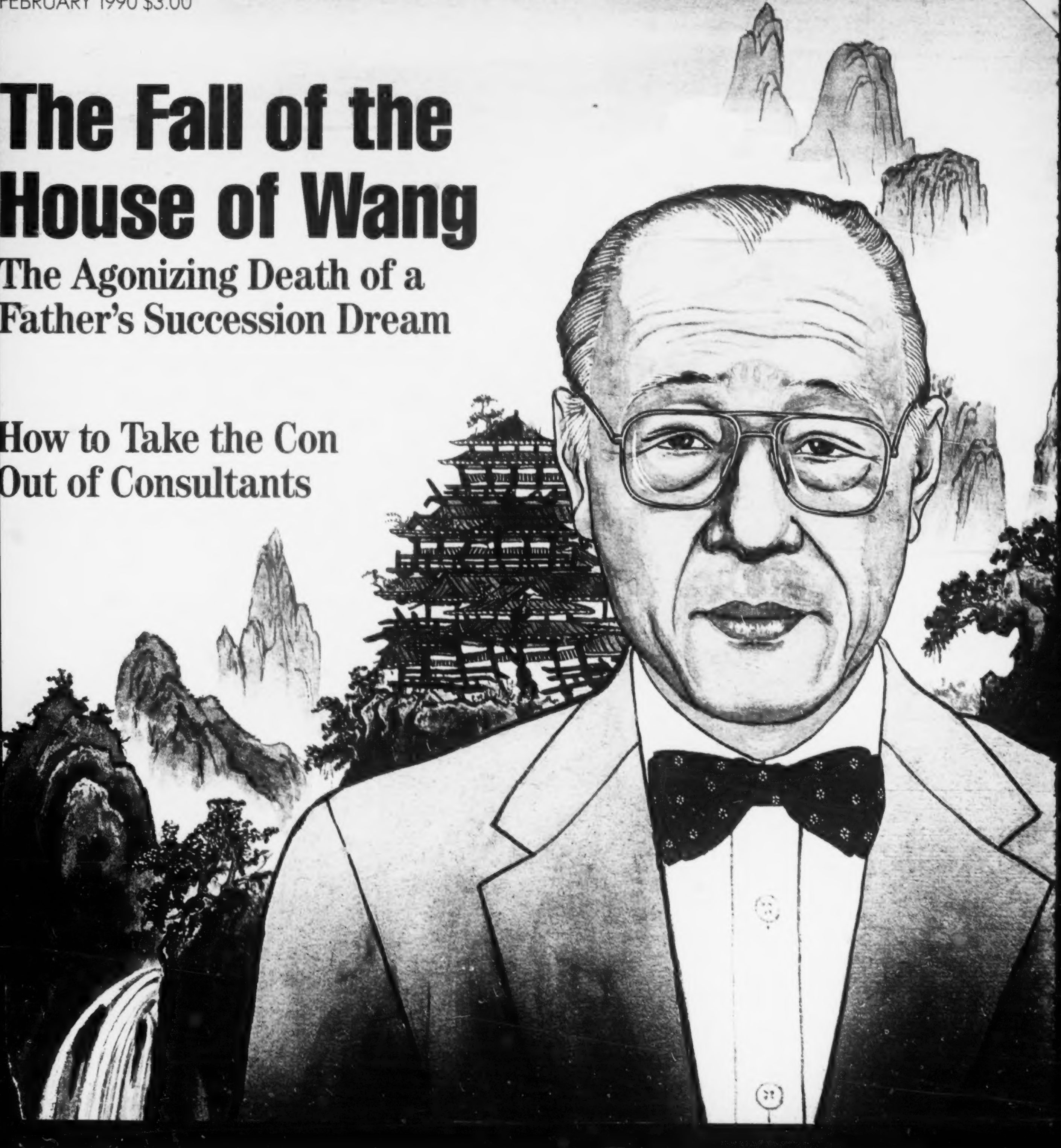
The Agonizing Death of a Father's Succession Dream

How to Take the Con Out of Consultants



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FAXPOLL FEEDBACK: LIP SERVICE TO THE LONG TERM

It's gratifying to learn that so many of you can get so worked up over an abstract issue. But the debate over long-term versus short-term strategies touched a lot of raw nerves, and drew well over 2,000 responses. We saw faxes marked up in a pen-breaking frenzy, additional thoughts scribbled by the hundreds—even, in a handful of cases, two-page dissertations on the subject.

1 It was hardly a contest. American Airlines' Bob Crandall buried his opponent with 98.8 percent of the vote. Blame us for some of the lopsided results: Perhaps we loaded the question by labeling the motivations of United Airlines' Steve Wolf "a fast payoff."

2 It came as no surprise that most of those who decried Wolf—96.9 percent—also scolded managers for focusing too much on quick results. Which raises a vexing question: If such an overwhelming majority of you decision makers out there are throwing in with the long-term crowd, how come corporate America is still at the mercy of short-term aggrandizers?

3 Here, too, you either strongly agreed (69.2 percent) or simply agreed (28.4 percent) that short-term thinking hurts our competitive position in the world. One of you demurred: "If you don't survive the short term, there won't *be* a long term!"

4 A lot of you took yourselves to task on this one: 68.9 percent blamed management self-interest ("That's spelled GREED," one of you wrote) for our failure to invest for the long term. Shareholder pressure garnered 44.9 percent of the vote, while tax laws and government regulation received, respectively, 12.3 percent and 6.2 percent.

5 What's the most effective way to safeguard a stronger future? Invest in it—provided Uncle Sam helps out: 37.6 percent of you cited liberal R&D and investment tax credits.

Where are all you laissez-faire champions? Only 27.8 percent named an unfettered free market as the most effective solution. A hefty 55.1 percent scorned the idea, rating it third best (28 percent) or least effective (27.1 percent).

Capital-gains breaks fared even worse—21.9 percent calling it the most effective way to strengthen our future. In last place: laws to penalize LBOs.

6 It won't cost you a dime to elicit stronger commitment from employees. Just give them more say in day-to-day operations, as 50.6 percent of you suggested. Pay for performance was endorsed by 39.5 percent; 26.7 percent approved of employee involvement in setting strategy. ESOPs didn't fare very well (17.4 percent).

Thirteen percent of you checked off the "other" category. "Treat employees like adults and partners," one reader pointedly wrote. Many of you suggested open and frequent communication of your goals to employees, as well as listening to their ideas. A few called for implementing a no-layoff policy. Some proposed that corporate leaders could do a better job of setting the example of commitment: "Quality starts at the top. Too many borderline CEOs are out there!" one subscriber complained.

7 O ye of little faith. An emphatic 58.6 percent of you sense no shift in management values; 20.8 percent couldn't tell what, if any, change was afoot.

THE BUSINESS MONTH

FAXPOLL

Whose side are you on?

1. Who pursued the right course, Wolf or Crandall?
2. Do managers focus too much on the short term?
3. Short-term thinking harms America's competitive position in the world.
4. Executives often fail to invest for the long term because of:
   ___ Shareholder pressure ___ Management self-interest
   ___ Tax laws ___ Government regulation
5. What ensures a stronger future for corporate America?
   ___ Legislation to penalize LBOs
   ___ Liberal R&D and investment tax credits
   ___ Tax breaks on long-term capital gains
   ___ An unfettered free market
6. How can a CEO strengthen employees' commitment to the company?
   ___ Give them more say in day-to-day operations
   ___ Involve them in setting corporate strategy
   ___ Introduce an ESOP
   ___ Tie pay to long-term performance
   ___ Other (please specify)
7. Do you sense a shift in management values from deal making to company building?

The margin of error is plus or minus 3.3 percentage points.

EARLY RETURNS: WAKING UP . . . ANGRY

Judging by the initial responses to January's poll, the odor of *sake* is not to your liking. It's okay if Japan builds a new auto plant in the U.S. But snatching up national landmarks or institutions like CBS Records raises your patriotic hackles. Is there anything to gain from Japan's presence in the U.S.? Are managers willing to work for a Japanese boss? We'll have those answers next month. Until then, Do you play dirty? See the current FaxPoll on page 76.

TAKING THE CON OUT OF CONSULTANTS

They can spot a flawed marketing strategy and tell you how to straighten out a computer mess. They can also take control of your company.

BY GREGORY J. MILLMAN

IN THIS CONSULTANT-MAD era, Bernardo Bertolucci's recent movie, *The Last Emperor,* is must viewing for corporate managers. As his predecessors had done for 2,000 years before him, Pu Yi, the boy ruler, depended heavily on a phalanx of eunuchs. With no outside emotional attachments, the eunuchs were supposed to be loyal only to the emperor, managing the palace in a disinterested manner. Today, companies pay management consultants huge fees for the same service; they expect the hired guns to give them unbiased advice that will help them survive in the marketplace.

History shows that many Chinese eunuchs had their own agendas after all, taking advantage of the trust placed in them to amass enormous power and personal fortunes. Bertolucci's last emperor nominally ruled all of China. In reality, he was a puppet of his eunuchs. Managers beware: Consultants may take control of your business too.

Don't flip the page. This is not going to be another diatribe against consultants. The annual revenues of the consulting industry are now estimated at as much as $15 billion, and not all of that money can be corporate waste. Consultants can be valuable, the experts say, but should be treated like arsenic: therapeutic in small doses, deadly in large ones. Consulting firms should be relegated to specialist roles. They should not be called in to help set policy. Isn't that what managers are for?

Critics also decry the latest consulting fad: implementation (as in, "At Bain & Company, we don't deliver reports; we deliver results"). Companies that allow consultants to stay on to put into practice what they preach may never get rid of them. Astute managers keep consultants on a tight rein. They know that consultants have to look out for themselves—and can't be completely objective. They take the *con* out of consulting.

Baxter International, the big hospital-supply company, may provide a textbook example of how consultants can take over. Baxter has employed Bain & Company for a wide variety of assignments since 1983, including many related to Baxter's

splashy 1985 acquisition of American Hospital Supply. Despite Bain's widespread help, Baxter has failed so far to meet its postmerger earnings targets. The company says unforeseen competitive factors, including price wars on intravenous fluids, have prevented the merger from being as profitable as projected. But insiders say the problems are at least partly attributable to out-of-control consultants.

Sources close to the situation say that around the time of the merger, the consultants took on far more work than they could do competently. "We had too many Bain teams working," says one management man. "We ended up with a lot of good work being done, but not much in the way of follow-up." Some suspicious line managers treated Bain consultants as top-management spies and were reluctant to work with them. Baxter sources blame the consultants for not telling the executives that some of the troops were stonewalling. "They were close to the situation and knew where they weren't succeeding," says one source.

One former Baxter manager says Bain consultants often usurped management authority—perhaps out of frustration that many of their ideas hadn't worked. This executive still bristles at the thought of a Bainie who went behind his back to the CEO's office, demanding that he, the consultant, have a greater say in the project that the Baxter manager was supposed to be running.

Bain executives today admit that they bit off more than they could chew at Baxter at the time of the merger, but they say they later cut back their activities. In any case, the consulting firm remains a fixture at the hospital-supply company. Baxter President Wilbur Gantz says the merger has met its "synergy goals," though profits have fallen short of forecasts. He insists that the consultants' work has been very satisfactory.

Baxter seemed to ignore evidence that its consultants were committing the profession's biggest sin: putting their own billings ahead of the client's profits. Consulting firms are masters at discovering new problems that need to be studied. Former consultant S. Woodworth Chittick, now vice president for corporate planning at Ocean Spray Cranberries Inc., recalls the routine. "You'd complete one assignment, the problem you'd come for, and you'd find two more problems requiring another engagement," he says. "That was always part of your assignment: What's next?"

This does not necessarily mean that consultants are an unscrupulous lot. Michael White, senior vice president for Avon Product's Parfums Stern subsidiary and a former consultant, says that the experience of the typical consultant tends to be in advising, not working on the front line. This gives him a different, if not always realistic, perspective. A consultant's lack of hands-on managerial experience may become an even bigger problem as he moves into his new role as an on-site implementer.

As some critics see it, the implementation movement is just another excuse for consultants to become permanent fixtures in their clients' expense columns. Consultants have always hyped themselves as indispens-

Who's Who and What'

The industry's major players strive to build broa
ity, most of them are stronger in some areas than

	1988 Revenues*	% Revenue from U.S.*
McKinsey & Company *New York*	$620 million	43%
Booz, Allen & Hamilton *New York*	$449 million	84%
Alexander Proudfoot Company *West Palm Beach, Florida*	$230 million	30%
Bain & Company *Boston*	$220 million	70%
Arthur D. Little *Cambridge, Massachusetts*	$201 million	77%
The Boston Consulting Group *Boston*	$110 million	50%
A.T. Kearney *Chicago*	$105 million	64%
Cresap *New York*	$62 million	66%
United Research Company *Morristown, New Jersey*	$54 million	82%
Strategic Planning Associates *Washington, D.C.*	$52 million	73%
Temple, Barker & Sloane *Lexington, Massachusetts*	$50 million	90%
The MAC Group *Cambridge, Massachusetts*	$45 million	53%
Monitor Company *Cambridge, Massachusetts*	$30 million	50%
Marakon Associates *Greenwich, Connecticut*	$20 million	66%

The Accounting Firm

The consultant arms of the big accounting firms
McKinsey in consulting revenues. But critics say

	1988 Revenues*	% Rev from U.S.
Andersen Consulting *Chicago*	$1,120 million	57%
Ernst & Young *New York*	$743 million	63%
Deloitte & Touche *Wilton, Connecticut*	$588 million	54%
KPMG Peat Marwick *New York*	$570 million	54%
Coopers & Lybrand *New York*	$447 million	52%
Price Waterhouse *New York*	$385 million	50%
Laventhol & Horwath *Philadelphia*	$145 million	83%

*Source: *Consultants News*

Up in Consulting

ased organizations equipped to handle any corporate problem imaginable. But in real-
thers—and some have notable weaknesses.

Clients	Strengths	An Outsider's Inside View
Hewlett-Packard, GM, AT&T, Barclays Bank, Nissan.	Strategic planning—the best in the business.	Snooty, blue-blooded culture. Very pricey. Originally thought information technology was low class; now trying to catch up, buying ICG, a Saatchi affiliate.
Dayton Hudson, CIA, USAir, Renault, Pentagon, IBM.	Strategic planning, information systems.	Number one in Washington and once mentioned in same breath with McKinsey. Reputation never the same since 1976 management buyout.
New York Life Insurance, Tecumseh Products, Amoco.	Productivity, cost reduction.	Can't shake "hatchet man" image stemming from past one-shot, fire-'em-all cost-cutting projects. Competitors rarely compliment its work.
Burlington Industries, Monsanto, Wells Fargo.	Implementation, especially on massive scale.	Epitome of consultant that takes over. Insists CEOs grant it enormous power; often places consultants in line positions. Won't work for clients' competition.
U.S. Postal Service, Eurotunnel, Sears Roebuck.	Research, technology.	Known for its work in the lab, not the boardroom. Values engineers more than MBAs. Most recruits honed skills in industry. Big in environmental cleanup.
Motorola, NYNEX, Brunswick, Alcan Aluminum.	Strategic planning, "speeding" products to market.	Gone are glory days when firm pioneered the experience curve and market-share theories. Slow to sniff implementation trend.
McDonnell Douglas, Motorola, Unilever, Lufthansa.	Distribution and logistics.	Hefty overseas. CEO Fred Steingraber spent half his career outside the U.S. Ranks just behind top gun McKinsey in Western Europe. One of few still in executive-search business.
World Bank, CBS, General Electric.	Organizational analysis, banking.	Has never been as big or as good as its reputation suggested. Still catching up despite 1983 acquisition by deep pockets Towers Perrin.
Eastman Kodak, Federal Express, 3M, Rockwell, Xerox.	Implementation, especially restructurings.	Leanest operator in the trade—only two offices, in New Jersey and London. Works solely at client sites. Stellar growth for 15 years.
Equitable, British Telecom.	Strategic planning, especially for retail and telecommunications.	Yearns to be big-league player. Recently announced acquisition by Marsh & McLennan may make it happen.
AT&T, Brunswick, Citicorp, Hallmark, Rhone-Poulenc.	Market research, transportation industry.	Smart move in 1987. Sold out to Marsh & McLennan, sewing up funds for expansion, yet kept its independence.
Merrill Lynch, Mead, Liberty Life Insurance, Teledyne.	"Soft" issues (corporate culture, CEO image).	Network of leading business-school professors, such as Harvard's Ted Levitt, lures clients and keeps firm wired to latest management thinking.
McGraw-Hill, Pacific Telesis, AT&T.	Market analysis.	A real comer. No longer living off affiliation with superstar Harvard professor Michael Porter. Revenues doubled almost every year since 1983 founding.
Westinghouse, Marriott, Union Carbide, Walt Disney, Sun.	Planning that emphasizes shareholder value.	Mention Marakon and most would-be clients ask, Who? But highly regarded by competitors, especially for targeting acquisitions and divestitures.

Growing but Still Learning

xperts in information systems, and now Andersen and Ernst & Young actually outpace
CPAs' commitment to broad-based consulting has been tepid.

Clients	Strengths	An Outsider's Inside View
Lockheed, Philips International, Toshiba, United Parcel Service.	Cream of the crop in information systems.	The Marine Corps of the trade. Treats all clients the same—arrogantly—but takes on everything from $10 million jobs to routine programming that others shun.
Sundstrand, LTV, Owens-Illinois, Unisys.	Health care, manufacturing.	Before 1989 merger, neither partner strongly supported consulting efforts. Will the combined outfit do any better?
Caterpillar, Safeway Stores, Allied-Signal, Unocal.	Reorganizations, retail.	Another merger play. Deloitte consulting never matched firm's rep as auditor. Touche's most valuable asset is Braxton Associates, a strategic-planning spinoff from BCG.
Aetna Life & Casualty, J.C. Penney, Eagle-Picher Industries.	Information technology.	Charlie Hustle. Consultants who win new business reap hearty rewards. Spreads itself too thin to be considered expert in any particular area.
The Limited, US Sprint, Scott Paper.	Quality control, just-in-time inventories.	Resisting merger trend. If bigger proves to be better, as other CPAs think, it may be left behind.
CBS Records, Amoco Chemical, Salomon Brothers.	Technology, especially for financial services and utilities.	Passive Patrick. Expects clients to seek firm out. Late getting into advanced consulting services, but now growing rapidly.
Holiday, Marriott, Blue Cross/ Blue Shield.	Financial planning.	Cultivates midsized companies, many family owned. Takes risky clients, such as companies nearing Chapter 11, that other firms turn away.

The Niche Players

As old-line firms aspire to be all things to all people, others zero in on specialties. These boutiques give advice on everything from corporate logos to relocating employees to running a body shop.

	1988 Revenues	Specialty
Altman & Weil *Ardmore, Pennsylvania*	$5 million	Law firms and corporate legal departments.
Automotive Service Consultants *Birmingham, Alabama*	$2 million	Auto-body shops.
The Falls Management Institute *Raleigh, North Carolina*	$9 million	Construction industry.
Insurance Management Group *Stamford, Connecticut*	$750,000	Operations advice for property/casualty companies.
Kaiser Associates *Vienna, Virginia*	$5.2 million	Comparing companies against their competition.
Lippincott & Margulies *New York*	$9 million	Corporate identification.
Moran, Stahl & Boyer *New York*	$14 million	Relocation of facilities and staff.
Rath & Strong *Lexington, Massachusetts*	$5.5 million	Just-in-time manufacturing.
Runzheimer International *Rochester, Wisconsin*	$12 million	Travel and living costs.
Thomas Group *Irving, Texas*	$10 million	Speed marketing: getting clients' products to market faster.

Everybody Benefits

It's no surprise that the biggest specialty consultants are experts on employee benefits. As clients are forced to spend more money and time on fringes, consulting revenues have leaped.

	1988 Revenues	Specialty
William M. Mercer *New York*	$523 million	Group benefits.
TPF&C *New York*	$384 million	Actuarial work; communicating packages to employees.
The Wyatt Company *Washington, D.C.*	$333 million	Flexible compensation.
The Hay Group *Philadelphia*	$210 million	Salary administration.
Hewitt Associates *Lincolnshire, Illinois*	$202 million	Flexible compensation.

able, insisting that problem solving is an art beyond the grasp of a line manager. Now they are even saying that managers aren't smart enough to implement the consultants' reports. Part of the rationale is that the solution to many of today's problems includes the use of complicated technical systems, which many corporations may not be equipped to install.

The problem, say the critics, is that once the implementers get inside, they quickly lose the detachment that is supposed to be the consultant's long suit. Their intense commitment to their own theories can cause resentment among the home troops. At worst, the rank and file look on the consultant's employees as competitors and start ignoring their recommendations. "Somewhere in this process, you must have the buy-in of management," says one executive. "If you keep consultants involved from beginning to end, you'll never get it implemented, because management will never take ownership."

Detractors say consultants often produce nothing but eyewash. Carl Icahn, corporate raider and head of TWA, loves to tell about his sole encounter with the profession. When Icahn acquired ACF several years back, he found a staff of 200 MBA types occupying 10 floors in the company's New York headquarters. He wondered why they were there but didn't feel he could get rid of them without finding out if they did anything useful. Icahn brought in a consultant. "Nice guys," Icahn recalls, "and they say, For a quarter of a million bucks we'll figure out what they do and explain it to you."

Five weeks later, the consultants presented Icahn with a massive book loaded with charts. The raider pushed the volume aside, saying, "Look, here's your quarter-of-a-million-dollar check and here's a yellow piece of paper. Now, just tell me what it is they do." The head consultant then confessed. "Okay, Mr. Icahn, you've been straight with us, we'll be straight with you," he said. "We can't figure out what they do, either." Icahn got rid of the staff. He says he "retired" the employees, giving them golden parachutes. He adds that he hasn't missed them—or used consultants—since. Icahn says that while consultants are often necessary, generally the growth of consulting is just another symptom of mediocre American management. "Corporate managers have built up tremendous bureaucracies, and in order to justify themselves, they sometimes bring in consultants to figure out what to do," he says.

Not all executives can blow away the chaff as well as Carl Icahn did. One of the ironies of the consulting game is that consultants often tell CEOs what they should already know. In many companies, information and ideas don't percolate upward from the ranks; communication is the best-organized alumni activities of any major consulting firm—Booz Allen, Bain, BCG, and ADL are all light years behind. The firm also pays unusual attention to smoothing things over with departing consultants. In a business where the emphasis on staff quality and the up-or-out policy necessitates high turnover and many who leave join potential clients, there is always a risk that bad feelings could undermine future business. Whether for humanitarian reasons or just because it makes good business sense, the firm gets high marks for the generous way it treats its employees when they leave. As one alumnus recalls, "McKinsey has a very well greased exit policy. They give you plenty of time to search for a new job and all sorts of career counseling. It makes you feel better about the place later on."

Whether or not the alumni generate new business, McKinsey generates jobs for alumni. Dozens made the contacts that led to their current jobs while working on McKinsey studies. Major clients such as Citibank, PepsiCo, Merrill Lynch, American Express, and GE all have more than a dozen McKinsey veterans apiece. Quite a few client captures include top managers: RJR Nabisco's Lou Gerstner, IDS Financial Corporation's Harvey Golub, and Lotus Development's Jim Manzi.

The influence of McKinsey's extensive alumni network is likely to grow even larger in the 1990s. On the supply side, the firm is now churning out nearly 250 exes each year. While this pace is unlikely to continue forever, the number of alumni could easily triple by the year 2000. Meanwhile, McKinsey's home base, the U.S. economy, is slowing down. So, for the first time, we may actually be facing a surplus of these high-priced alumni. Whatever the managerial labor market is like in the 1990s, however, we can be sure that more than a few McKinsey veterans will be advising, planning, and managing their way to the top. —JAMES HENRY

the consultant's original proposal to attack the problem includes the important facts and issues.

Consultants can be the answer if the client doesn't have the in-house skill to do the job. "We will employ consultants to analyze health-care benefits, because it's an area we're not heavily staffed in," says Chittick. Consultants also are a good call when a company can't spare the time of managers who would be appointed to an internal study team.

Picking the right consulting firm for the job may be an even trickier exercise than defining the problem. Many big firms maintain that they can handle any sort of assignment, but the truth is they all have their weaknesses. Companies often ignore another seemingly common-sense rule: make sure the consultant is compatible with the corporate scheme. "Suppose your company is consensus-oriented and the consultant is authoritarian," says Ron Brzezinski, a partner in Coopers & Lybrand. "Then you can have excellent solutions, but nobody buys them."

The consulting industry's rapid growth impedes the selection process. As firms get bigger, the lead partners may become so involved with managing their own enterprise that they lose touch with their avowed purpose: helping others manage theirs. The increasing use of technology may confuse clients further. Traditionally, the consulting arms of the big accounting firms have been the experts on high-tech systems. But now, the old-line consulting firms are increasing their competence in the systems area. They are hiring high-tech specialists—niche nerds—as fast as they can find them. Naturally enough, the accounting firms have answered this competitive threat by trying to increase their own expertise as general consultants.

Consultants themselves say that management should keep a close watch on whichever firm it decides to hire. Experts say that clients should press their consultants early and often for tentative solutions to whatever problem they are studying. They say a good approach is to ask the consultant what he would propose if the assignment had to be terminated in a month. If the response is lame, management should do with the consultant what it would do with a permanent employee: Warn him, and if he doesn't shape up, fire him.

Four years ago, Avon Products found a unique way to stop spending millions of dollars each year on consultants. It formed its own in-house consulting team. It raided the top consultant firms for experienced hands and recruited MBAs. Avon's homemade team solves problems on demand and provides training for bright newcomers who can later move into management ranks.

Not every company can afford that approach. But Jacobson of Vetco Gray says any organization can practice do-it-yourself consulting. He says that when he does call in consultants, he instructs his people to work closely with them—in order to learn their analytical techniques. Then, the next time a consulting job is in order, the managers can do it themselves. What he's saying is simple: Good managers learn to con the con artists. ■

Gregory J. Millman, author of The Floating Battlefield, *is a New York-based free-lance business writer.*

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THE MAGAZINE OF CORPORATE MANAGEMENT

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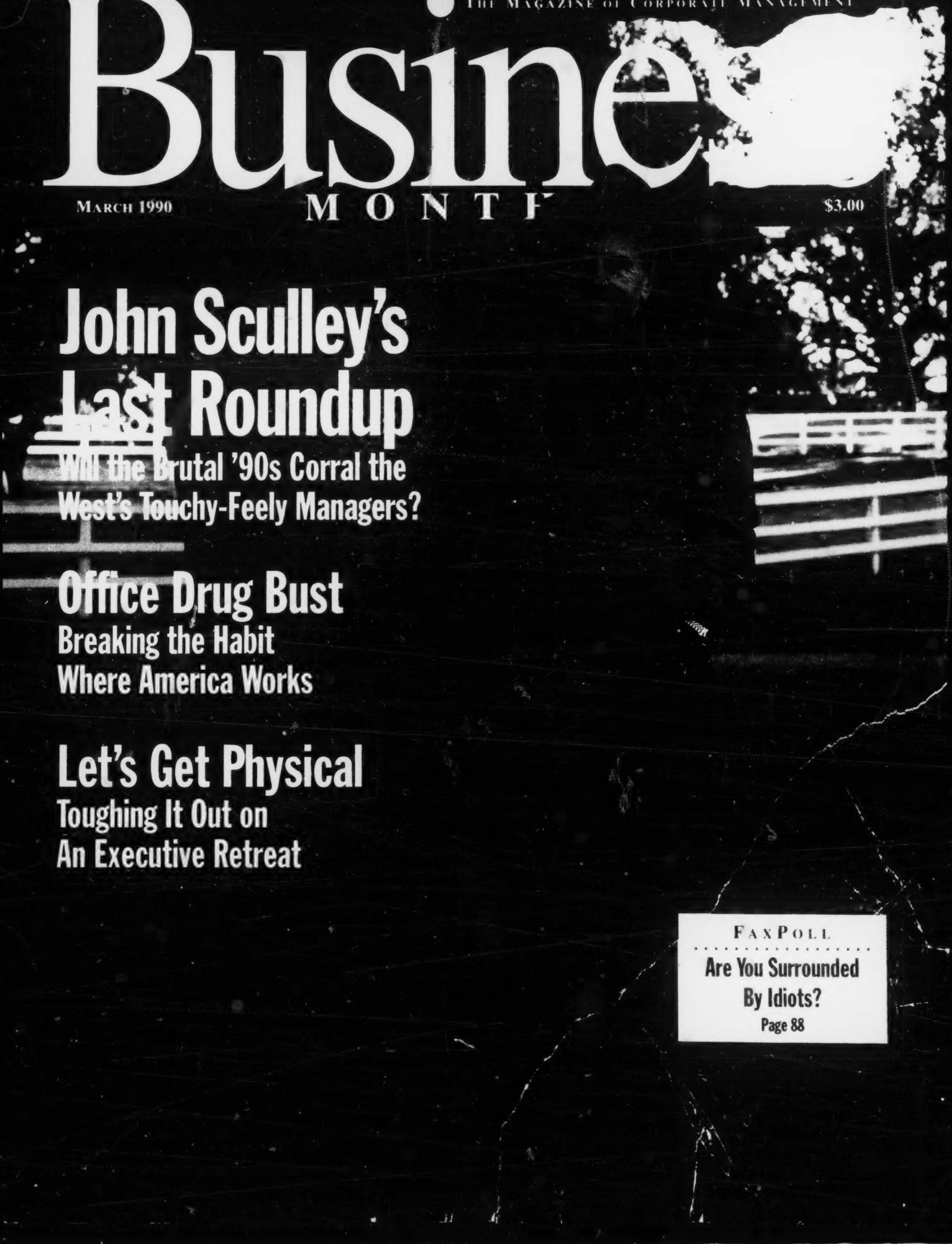

John Sculley's Last Roundup

Will the Brutal '90s Corral the West's Touchy-Feely Managers?

Office Drug Bust

Breaking the Habit Where America Works

Let's Get Physical

Toughing It Out on An Executive Retreat

FAXPOLL

Are You Surrounded By Idiots?

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GEORGE LANGE

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Cover Photograph: Nigel Dickson

Features

THE COVER

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John Sculley's Last Roundup

He went west and found feel-good management—leadership by inspiration rather than authority. Now, as the hard realities of the '90s begin to set in, Apple's John Sculley and his laid-back colleagues wonder if work can ever be fun again. *By James Kaplan*

CASE STUDY

42

Office Drug Bust

In our November FaxPoll you said yes to testing—so we found a company that went cold turkey. Santa Fe Pacific's ordeal may change your mind. *By Tom Post*

THE PROFILE

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Is There Life After Pizza?

No longer hungry for Domino's, Tom Monaghan is obsessed with doing the next thing. You'd better not get in his way. *By Alex Prud'homme*

THE ISSUE

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Conquering Japan

How can American business grab a piece of the Land of the Rising Sun? For once, thinking short term may be the right answer. *By James Fallows*

SPECIAL REPORT

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Let's Get Physical

Management just got muscles. On retreats across the country, executives are climbing and hiking in hot pursuit of team spirit. Can it work for you? *By Alex Prud'homme and Harvey Chipkin*

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For this executive headhunter, science beats a Rolodex

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The just desserts of a well-versed poet at Jell-O

FAXPOLL/88
Are you surrounded by idiots? Tell us what you think

but I will say that there are definitely parents out there that fit that description.

MICHELLE DAVISH
Oxnard, California

THE NEW AGEE REVIEW

YOUR COVER STORY ON BILL AGEE ("Born Again!" January) was factually incorrect in several instances: In 1979 Bill Agee was not a bachelor; he has never had a reputation as a playboy, as you so characterized him in your story. The Shuwa Corporation is a Japanese company whose primary business is real estate development.

By devoting so much space in the article to the eight-year-old Bendix experience, you may have unfairly deprived your readers of real insight into a warm, open, and friendly man. Bill Agee has provided the inspiration, leadership, and sense of team play that has turned this company around in record time.

JESS HAWLEY
Director, corporate communications
Morrison Knudsen Corporation
Boise, Idaho

I CAN CERTAINLY SYMPATHIZE WITH THE plight of poor Bill Agee. It must have been boring in Cape Cod without tens of thousands of lives to destroy. Having been through a plant closing, I am speaking from bitter personal experience. The mistakes of people like Bill Agee, people you laud as heroes, have been the direct cause of suicides, broken marriages, serious illnesses, sons and daughters of employees being forced to leave college, and lost homes.

Nowhere have I seen in your magazine any of this mentioned. At the very worst you lightly chide the offender, the person who came out of the disaster with a multimillion-dollar golden parachute to soothe his (imagined) wounds. And other companies are stupid enough to hire these "heroes" after they have destroyed their own companies.

These people are the ones that are handing the American market to the Japanese on a silver platter. The scorched-earth policy that is being carried out by American businessmen on American business is leaving a vacuum for the Japanese (or anyone else with basic business ethics) to move into unopposed.

JIM TRENT
Omaha, Nebraska

YOU'VE GOT OUR NUMBER

WE WERE MOST DISAPPOINTED TO LEARN that your FaxPoll telephone number is not reachable from Alaska. Without sounding sarcastic, I thought that I would point out to you that Alaska joined the Union a few decades ago and considers itself a bona fide part of this nation.

STEVE R. SMIRNOFF, APR
Anchorage, Alaska

We are happy to report that our FaxPoll number can now be dialed from all 50 states—even surfside from Maui.

DON'T DECRY WOLF

THE ISSUE DEBATED IN YOUR DECEMBER FaxPoll—a fast payoff for shareholders versus planning for the long-term growth of a company—is certainly valid in today's business atmosphere. However, the statement that Mr. Wolf was "ready to take on billions in LBO debt to give shareholders a fast payoff" is entirely inaccurate.

It is the continuing commitment to the long-term growth of United Airlines that caused management to consider debt of any kind. The debt that the board of directors and Mr. Wolf were willing to take on—only with extreme reluctance and few viable alternatives—was in the context of an employee-stock-ownership program and would have allowed the company to avoid the very real threat of a hostile takeover. The serious consequences of any new outside ownership of the airline would most likely have resulted in the selling of important assets and the possible loss of jobs and market share—certainly not in the best interest of the long-term growth of the airline.

Yes, the institution of an ESOP would have leveraged our balance sheet. However, it also would provide a tax-advantaged means to pay off the debt.

LAWRENCE M. NAGIN
Senior vice president
Corporate and External Affairs
United Airlines
Chicago, Illinois

Address letters to Letters Editor, BUSINESS MONTH, *488 Madison Avenue, New York, NY 10022. Or fax 1-800-766-7655. All letters must include the writer's name, address, and telephone.*

FaxPol

Does Japan own you?
You're not quite sure.
Many readers angrily
say no but express
resignation about the
future. They seem torn
between preserving
America's independen
and their own surviva

If they're out to win your suppor
the Japanese would be wise t
build rather than buy in this coun
try: 81.4% of you think that erect
ing new factories is a good thing
You oppose acquisition; it smack
of taking without giving anythin
back. Most of you can't abide th
thought of Japan's buying U.S
landmarks (75.7%) and existin
companies (71.6%); and 61% o
you don't want the Japanese
ing anywhere near the banks. Som
readers thought we missed the boa
on this one, arguing that in a fre
market, anyone should be allowe
to buy anything. In that spirit, on
reader compared Japan's buyout o
U.S. assets to the deal the settler
made to grab Manhattan. "It's th
same way we treated the America
Indians: We gave them trinkets; th
Japanese give us VCRs and cars
. . . Let's just hope they put us o
better reservations."

Feedback

You don't completely buy the story of Japan's legendary benevolence toward employees. Of the 54.6% who voted yes, nearly one-quarter claimed the Japanese were forced to behave decently, either to attract skilled labor (14.9%) or to comply with U.S. laws (9.6%). Those who checked off no complained of blocked career paths for U.S. managers (28.3%), second-class citizenship (22.9%), cultural differences (12.6%), and discrimination against women and minorities (7.2%). While a sizable 19.5% wrote in Don't Know, a few expressed ambivalence by checking off *both* yes and no. Wrote one: "Yes, because they pay them well; no, because they remove Americans from the decision process."

77%

think corporate America is being shortsighted

FaxPoll

WAKE UP! CAN YOU SMELL THE *SAKE*?

1. Is corporate America being shortsighted in selling its assets to Japan?
2. Are the following types of Japanese investments good or bad for the U.S.?
3. What can we gain most from Japan's presence in the U.S.?
4. What is the chief drawback of so much Japanese ownership?
5. Do Japanese companies in the U.S. treat their American employees fairly?
6. Would you work for a Japanese boss?
7. Would you support any of the following restrictions on Japanese investment in the U.S.?

Japan's presence here can't be *all* bad. A lot of you see it as a challenge to strengthen our own industrial might: 59.2% think we gain by being goaded into improving quality. In your eyes, that's a far more important benefit than Japanese money (25.1%) or management techniques (12.8%). A few saw only a downside. Suggested one: "We should welcome them with open arms, and just when they think they've got control—nationalize! Consider it a kind of economic Pearl Harbor, only this time *we* pull off the surprise attack."

You're not lining up to serve the Rising Sun: 29.2% said no way would they work for a Japanese boss; 32.4% ticked off Don't Know; and 38.4% claimed they'd do it. But these results seem to mask a deeper struggle of pragmatism and principle. Nearly a third of those who couldn't bring themselves to say yes still conceded that Japanese companies treat U.S. workers well. And 27.3% of those who'd said they would work for a Japanese boss complained, on principle of course, that we're losing our national pride.

77%

SUPPORT MAKING SOME INDUSTRIES OFF-LIMITS

71%

SUPPORT LIMITING INVESTMENTS TO MINORITY INTERESTS

17%

SUPPORT BANNING ALL OWNERSHIP

Japan inspires fear— much of it exaggerated. Nearly two-thirds of you (62.3%) said the biggest drawback to Japanese ownership was ceding control of our economy. You must have forgotten that at $5.3 trillion, our GNP is nearly twice the size of Japan's. Your second biggest nightmare is losing our national pride (21.7%) and our cultural identity (0.8%). Only 15.6% fretted about a *real* threat: giving away strategic technologies.

FEBRUARY FEEDBACK PREVIEW

TRASHING THE POLLUTERS

Mother Earth has many anguished children among our readers. And quite a few of them seem eager to dump on their own companies. Who should bear the cleanup costs? So far, it's Uncle Sam and the shareholders. How should offenders be punished? We'll have the full account next time. For now, are you surrounded by idiots? See page 88.

THE MARGIN OF ERROR IS PLUS OR MINUS 3.3 PERCENTAGE POINTS

Gioia published prolific quantities of literary criticism and edited poetry for *Inquiry*, a now-defunct biweekly. But he was wary of sending out his poems to magazines. As a student at Stanford, he felt poetry editors were bypassing his best work in favor of more mainstream selections. ''I didn't want that pressure,'' he says of his early work after college. ''I wanted to write in my own voice.''

Finally, in 1982, he snapped his self-imposed silence—and almost immediately his meticulously crafted verse began appearing in the *Hudson Review* and other leading literary quarterlies. Soon Howard Moss, then the poetry editor at *The New Yorker*, asked to see his work, and Gioia's second career was quickly born. ''I didn't have to play in the minor leagues,'' Gioia says.

For the next two years, Gioia *really* led a double life. At General Foods' corporate headquarters in White Plains, New York, he tried his best to keep his metrical moonlighting a secret. ''I didn't want anyone to know I wrote poetry,'' he says. ''I liked the privacy that gave me.'' Then Gioia was cited in *Esquire* magazine's 1984 Register—a listing by the editors of 272 influential men and women under age 40. The article blew Gioia's corporate cover.

Today, with his distinct identities out in the open, Gioia focuses on balancing his business days and literary eves, a task requiring as much discipline as energy. ''I used to run four miles a day in college,'' he says. ''After two miles I was exhausted, but I pushed and pushed myself, and there would be this breakthrough. I thought I could go on forever. I've trained myself to have that second wind at night.''

In the poetry world, you know you've made an impact when your work has been not only enthusiastically reviewed but just as zealously denounced. In the *Northwest Review*, one of numerous little magazines in which literary combatants square off, the poet Greg Kuzma caused a stir with an attack last year on Gioia's writing, calling it ''the poetry of privilege'' and ''the poetry of money.''

But as a spate of protesting letters to the *Review* suggested, Gioia's ties to commerce may be as much an asset as a liability. And they're hardly novel: He joins a long line of poets who made their living in the corporate world, including Wallace Stevens, a vice president with Hartford Accident and Indemnity, and T.S. Eliot, a foreign-exchange correspondent with Lloyds Bank in London.

Indeed, Gioia has turned this connection to his advantage. A sentence from one of his several essays on business and poetry could serve as his credo: ''I have tried to write truthfully about the actual daily lives people lead in America—even when the resulting subjects were ones that poets were not supposed to celebrate.'' So while he would just as soon write ''old-fashioned love poems,'' what is most distinctive about Gioia's poetry is precisely what Kuzma objects to: its engagement with the material world of profits and losses, offices and suburbs. In the poem ''In Cheever Country,'' he writes: ''Somewhere upstate huge factories melt ore, mills weave fabric on enormous looms, and sweeping combines glean the cash-green fields. Fortunes are made. Careers advance like armies.''

> *Gioia wisely separates his corporate days and literary nights. "People admire the versatility and the imagination," he says. "But would you want a poet running your business?"*

Gioia is a leading figure in the movement known as the new formalism, which puts its stock in traditional poetic devices, rhyme, and meter—in contrast to the free verse associated with creative-writing workshops. ''Two generations of younger writers have largely ignored rhyme and meter,'' he has said. ''Why shouldn't a poet explore the full resources the English language offers?''

Strive as he might to keep his life compartmentalized, Gioia the poet can't help having some connection to Gioia the businessman. At the office, he's made his literary bent felt through Jell-O's Reading Rocket, an award-winning child-literacy program aimed at fourth graders. And he has put his managerial expertise to work in the literary world, both as an informal adviser to several small presses and in his seat on the board of directors of Wesleyan University's Writers' Conference. Thanks in part to Gioia's ability to recruit interesting speakers, the week-long conference has become one of the country's best, with an emphasis on nonfiction that distinguishes it from other summer writing programs.

In fact, Gioia's commitment to General Foods may be indirectly helping him with his poetry. Corporate success ensures his freedom to write; he can disregard changing poetic fashions as perhaps his publish-or-perish campus counterparts cannot. His knowledge of business also affords him a wealth of unusual material for his poems.

And his immersion in the world of getting and spending has deepened his convictions about his craft. ''Poetry must continually enlarge its sympathies and concerns [and find] beauty where it has been overlooked,'' Gioia says. Clearly, this two-career man demonstrates that a literary sensibility can find plenty to nourish it in the heartland of commerce. ■

David Lehman, a former Newsweek *book critic, is series editor of the annual* Best American Poetry *anthology.*

BUSINESS MONTH, Publication Number (ISSN: 0892-4090), MARCH 1990, Vol. 135, No. 3. Copyright © 1990 by Goldhirsh Group, Inc. All rights reserved. Published monthly. Editorial and advertising offices at: 488 Madison Avenue, New York, NY 10022. Telex 592-379. Tel. 212-326-2600. Subscription rate for U.S. and possessions, 12 issues for $24; foreign airmail, $45. Please state title and company when subscribing. Publisher reserves the right to refuse nonqualified controlled subscriptions. **POSTMASTER: Send address changes and all mail to: BUSINESS MONTH, P.O. Box 55982, Boulder, CO 80322.** In case of change of address, send an address label from a recent issue. Second-class postage paid at New York, NY, and at additional mailing offices. The contents of this publication may not be stored or reproduced in any form without consent of copyright owner. Requests for permission should be directed to: Permissions Manager, BUSINESS MONTH, 38 Commercial Wharf, Boston, MA 02110. Tel. 617-227-4700. BUSINESS MONTH® is a registered trademark of Goldhirsh Group, Inc. Printed in U.S.A. The BUSINESS MONTH FaxPoll is a service mark of Goldhirsh Group, Inc.

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THE MAGAZINE OF CORPORATE MANAGEMENT

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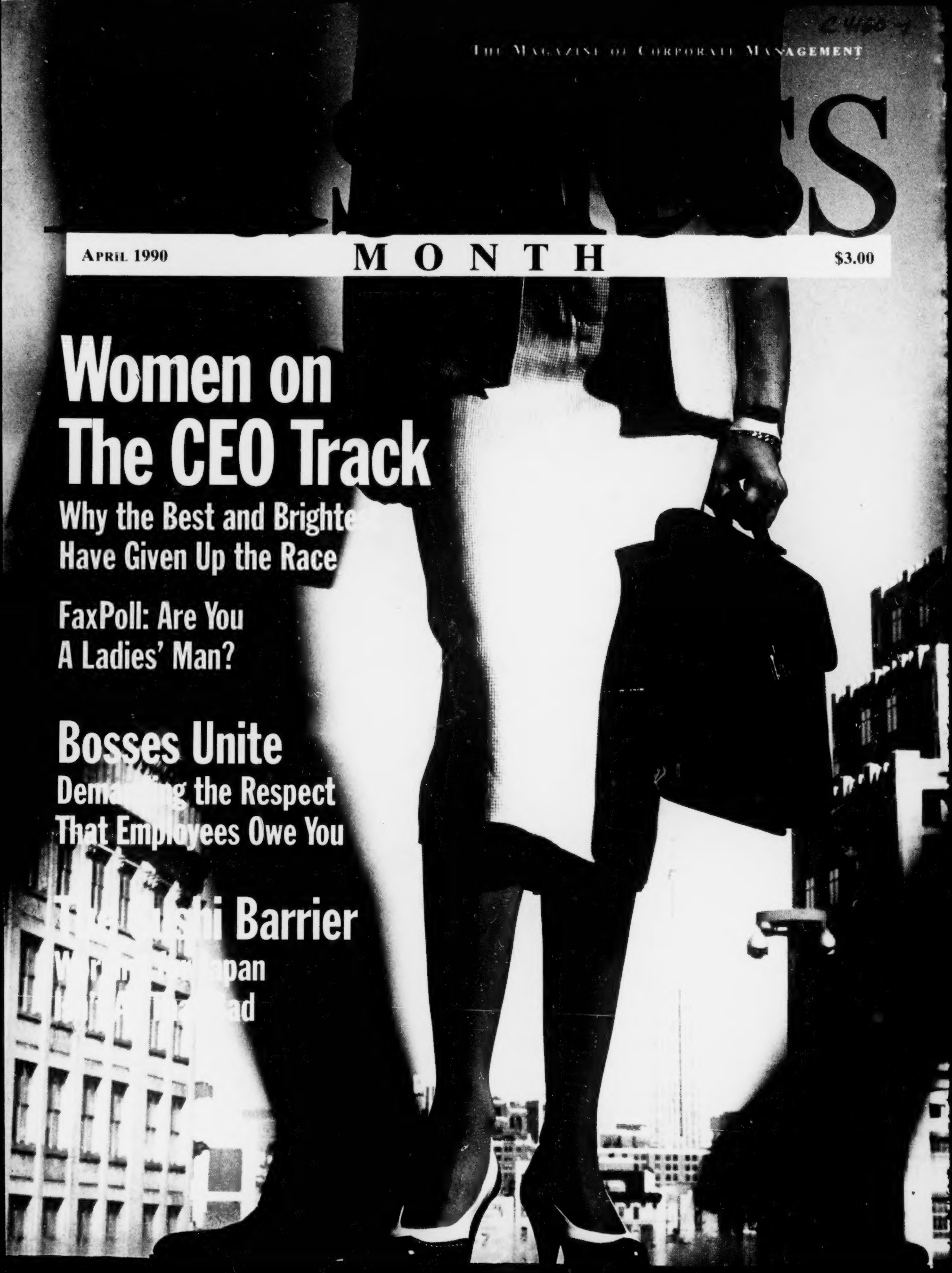

Women on The CEO Track

Why the Best and Bright[illegible]
Have Given Up the Race

FaxPoll: Are You
A Ladies' Man?

Bosses Unite

Dem[illegible]g the Respect
That Employees Owe You

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CHIP SIMONS

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Cover Photograph:
Frank W. Ockenfels 3

STYLED BY PHILIP SHUBIN
CLOTHES AND SHOES BY RALPH LAUREN
BRIEFCASE BY BOTTEGA VENETA

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THE COVER

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Women on the Verge

They are the best and the brightest—eight who could be CEO at any one of America's most powerful companies. But they're also women, a fact, they concede, that probably means the coveted top spot will never be theirs. As their stories show, they have hope, but it's for the generation that follows them. *By Mary Billard*

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48

Cleaning Up a Dirty Image

Finally, it seemed, executives had caught on to the finer points of crisis management. Then came the Exxon oil spills, hurting not only the environment but corporate credibility as well. *By Ben Yagoda*

NEW IDEAS

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Bosses, Unite!

Employers owe things to their employees. Fine. But employees also owe something in return. It's high time for an entirely different Bill of Rights. *By Ben Stein*

CASE STUDY

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Breaking the Sushi Barrier

You're petrified at the thought of working for a Japanese boss, according to our January FaxPoll. Relax. It may not be as bad, or as different, as you think.

THE PROFILE

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The Right Tool for the Job

Produce or else! That's what GE's new productivity czar is telling 292,000 employees. But there's no guarantee he can meet the challenge himself. *By Jeffrey Lener*

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Going modern on a mule train; when the boss won't let go; games MBAs play

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Asking for trouble? The perils of personality screens

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AMERICA & CO./13
The business book you can't read—but should

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CEO'S JOURNAL/18
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EXECUTIVE FILE/21
How companies fire; the sick-building syndrome; bizarre ways to communicate; translating insurance-speak

INNOVATORS/68
How PepsiCo's "cafeteria plan" became a benefits smorgasbord

QUICK STUDY/70
Marco Polo would have marveled at the old Soviet Six

COMPENSATION/74
The myth and sad reality of performance pay

MOONLIGHTING/78
Exchanging a power tie for blue suede shoes

FAXPOLL/80
Are you a ladies' man? Tell us what you think

ly reserve for our clients. We were, however, a little puzzled by the "outsider's view" that our firm is "still catching up," since Cresap has enjoyed a compound annual revenue growth rate of 41 percent for the last seven years. Suffice it to say that we plan to maintain momentum by continuing to adhere to the approach that Millman appears to advocate in his article: solving problems *with* client management.

RODMAN L. DRAKE
Managing director
Cresap
New York

MORALS AND THE MBA

ALTHOUGH I AGREE WITH MAX M. THOMAS's conclusion in "Classroom Conundrum: Profits + Ethics = ?" (Speaking Out, February) that ethical awareness must be sponsored by business professionals and educators alike, I take issue with the implication that today's students exist in an ethical vacuum. This is not true at the University of California, Riverdale, where I am an MBA student. I doubt the students are so different at King's College in Pennsylvania.

SUSAN MORRISON
Norco, California

I AM A PROFESSIONAL IN MY EARLY 30S IN the final semester of the University of Louisville's MBA program. Most of the students are working adults. Our values are shared, and ethics in business is a primary concern. However, when I attended an educational seminar in New York this past summer, I found myself among 18-to-20-year-olds, a group with a different set of values.

We were given the scenario of a job interview. The applicant had all the qualifications and offered even more: confidential information on his previous employer's clients. To me, this was wrong, and I said so. The other group members went so far as to suggest he use the information as blackmail. One member pointed out that nothing in the case said it was obtained illegally.

Young people should learn that what is legal may not be ethical. Ideally, their parents and elementary school teachers would have instilled basic values. Still, better late than never.

SHEILA A. GIVIDEN
Louisville

BACK TO THE FUTURE II

BEN STEIN'S "HUMAN CAPTIAL: A CHILLing Fable for America" (January) is a remarkable piece of prose and should be required reading in the guidance departments of our high schools. However, I take issue with one aspect of Stein's fable, namely the assumed illiteracy of Kevin Hanley's ancestor in County Kerry of the 1830s. Of Kerry youth, Sir Robert Peel, a British prime minister of the period, said, "The youth of Kerry go about in rags with volumes of Greek and Latin under their arms."

Now, had our hero been of an English background . . . .

PETER A. MURPHY
Coordinator, Teacher, Welfare Department
Ontario Catholic Teachers Association
Toronto, Canada

BEN STEIN'S OBSERVATIONS HAVE STRUCK a responsive chord. The idea that the "I want my MTV" generation will be responsible for my care and maintenance in my impending dotage scares the hell out of me. Unfortunately, those who would benefit most from the message in your article are those least capable of reading and understanding it.

ROBERT J. CARROLL
Unison Industries
Jacksonville, Florida

BEN STEIN'S ARTICLE IS VERY INSIGHTFUL about an issue we have been trying to address at our school, and his method of explaining its implications is wonderful. The article has made the rounds of writing classes, various staff members, the librarian, and the principal. Students in my advanced writing class were asked to read and critique it. I was not sure what their reaction would be—possible disdain or the belief that it was exaggerated. Both reactions were far from what I got. We have decided that it should be mandatory reading for all!

SUANNE HUFFMAN
English Department
Linn-Mar Community Schools
Marion, Iowa

Address letters to Letters Editor, BUSINESS MONTH, *488 Madison Avenue, New York, NY 10022. Or fax 1-800-766-7655. All letters must include the writer's name, address, and telephone number.*

FaxPoll

Get tough on polluters! That was your surprisingly militant stance on the environment. But is your concern just talk? Few readers could cite any positive steps taken by their companies. Such indifference might explain why your response to the poll was lighter than usual.

IMMEDIATE ACTION is what many of you are calling for because you feel we're facing an ecological disaster. Slow down, there's no cause for alarm, said the 26.2% who paid lip service to the problem. On the lunatic fringe: the 1.8% who claimed that industrial pollution is the fiction of radical groups.

Feedback

DIRTY SECRETS of corporate America: Nearly 6 respondents out of 10 said their companies were not helping to clean up locally. Why? Let's call it the shrug factor. "Quite frankly, nobody gives a damn," one of you wrote. Sneered another, "Girl Scout cookies are a cheaper, higher-profile cause." And those were the *illuminating* answers. When pressed to explain why their companies didn't get involved, more than half declined to answer or wrote, "Don't know." Lamest of all were the excuses that no one in the community had asked the company to help out.

42%
SAID THEY WASTE ENERGY

36%
SAID THEY FAIL TO RECYCLE

17%
SAID THEY POLLUTE AIR OR WATER

CUT PROFITS to clean up. That's what 40% of you said you'd do about an environmental mess of your company's making. "Pay up and shut up; why should someone else have to foot the bill?" one reader wrote. Not everyone agreed: 24.8% felt the customer should bear the cost, and an equal number thought Uncle Sam ought to help out. Move some place that'll let you pollute, recommended 6.5%. And a dozen or so diehards suggested fighting the matter in court.

FaxPoll

DO YOU PLAY DIRTY?

1. Is your company involved in any environmental improvement efforts in your community?
2. What would you do if your company had to meet major cleanup expenses?
3. What is your company's worst environmental offense?
4. What should the Government do to crack down on corporate polluters?
5. How would you assess the magnitude of industrial violations of the environment?

NO MERCY for the enemy. Almost 40% of you said the Feds should punish corporate offenders by increasing fines and penalties; an additional 36% favored fining or imprisoning responsible managers. Only 12% felt companies could be brought into line by imposing tougher standards. Nearly 14% had other, more imaginative suggestions, including "disembowel violators," "publish the names of polluters," "subsidize the costs for energy-efficient plants," and "offer protection from foreign competition in exchange for reducing pollution."

72%
say industrial violations of the environment are a national crisis

MARCH FEEDBACK PREVIEW

THE SLOW TRACK

You're not only surrounded by idiots; you're positively overwhelmed by them, judging by responses to our poll on educational handicaps at the office. Even though most of you reject more than half of entry-level candidates, you're still saddled with a poorly equipped work force—managers included. How high up do the problems go? What are your companies doing about it? Next month we'll present the complete story. Meanwhile, are you a ladies' man? Turn to page 80.

salary, and I doubt I could match that as a deejay," he says.

Still, Reina is more of a risk taker than he lets on. In the early days of his deejay career, he butted heads with a senior executive at Campbell. Who exactly, he won't say. "How can a controller be out till one or two in the morning playing records and still fulfill his daily responsibilities?" raved his nemesis. Reina, who was controller of the soup division at the time, knew his management career was in jeopardy, but he decided to try to ride out the controversy. "I couldn't turn back," he says. "And it was none of their business anyway."

Luckily, things broke well. The disagreeable executive was miraculously transferred to another division, and both of Reina's careers took off. His dances got more frequent, his rates climbed a little higher, and he was promoted to controller of financial planning for the entire division. The company hired him year after year as the deejay for its annual Christmas party and summer picnic.

All he needed was a gimmick for his show, something to motivate his audience. He asked Herb Baum, head of Campbell U.S.A., if he could give away the company's promotional items—calendars, playing cards, tote bags, all stamped with the Campbell logo—at his dances. No problem, said Campbell Soup Company. At every dance since then, Reina has interrupted his performance several times to ask the audience a trivia question. Who sang the original rendition of "Blue Suede Shoes"? Or what was Dorothy's last name in the *Wizard of Oz*? The winner receives a Campbell freebie, but perhaps more important, the entire audience hears the same refrain each time: "These wonderful prizes are provided by Campbell Soup, so don't forget to patronize the good old folks at Campbell."

It's hokey, but Reina can't help himself. Campbell Soup has been good to him. His stability there has enabled him to pursue his passion: music. As he eats a bowl of soup for lunch (Campbell's vegetable, of course), he muses: "My deejay work doesn't interfere with my responsibilities here, so I've never felt like I've cheated one career for another. But I love music. Isn't it nice to get paid for doing something you love?" ■

Barbara Hetzer is a staff writer at BUSINESS MONTH.

"The marketing plan said we'd double in size, so Ed in Purchasing—remember Ed?— he got this great volume discount on office furniture."
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THE MAGAZINE OF CORPORATE MANAGEMENT

Business MONTH

MAY 1990

$3.00

Look, Ma No Hands

The Calculated Climb Of a Fast-Growth CEO

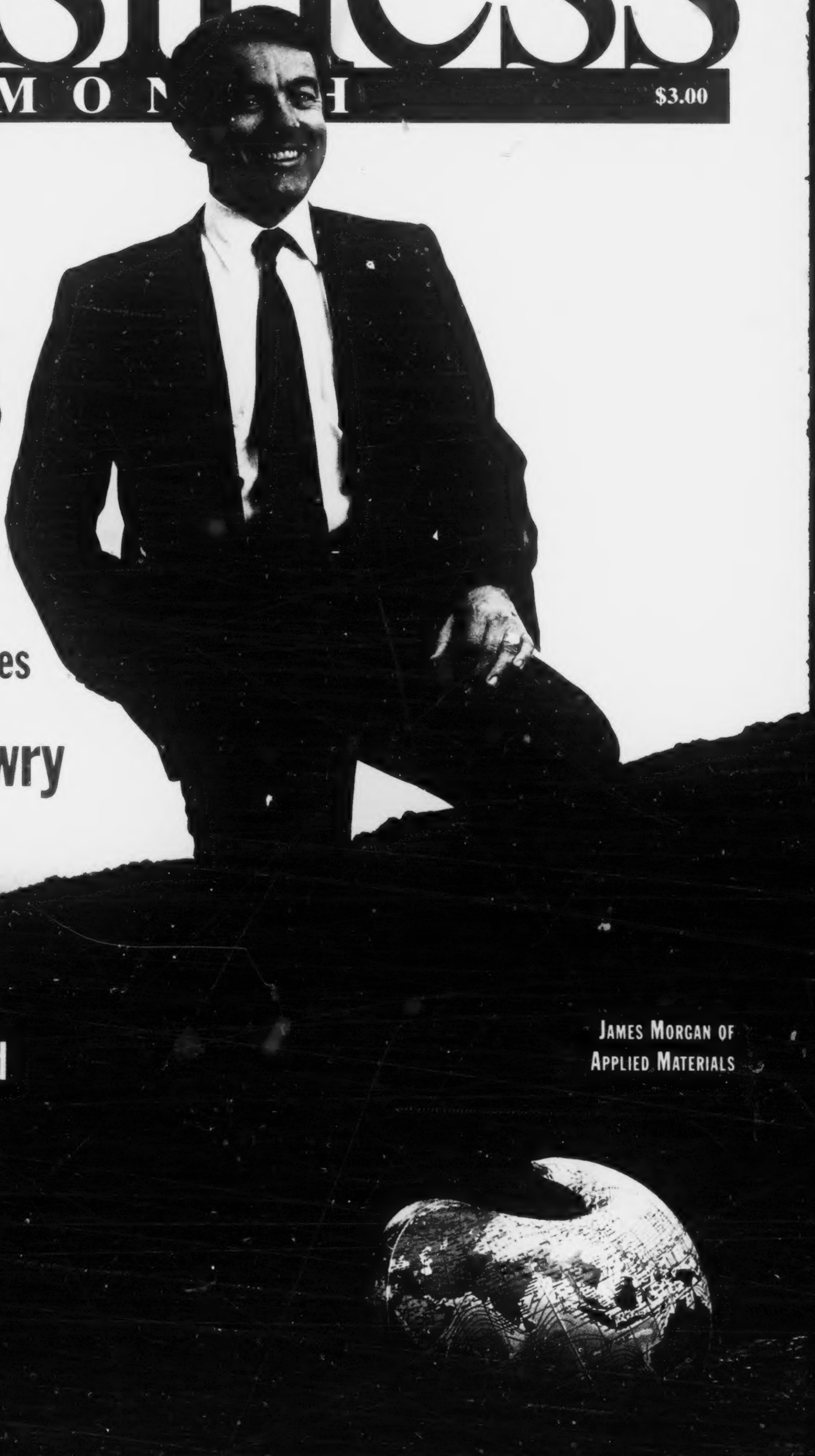
The Fast 100: Secrets Of the Hottest Companies

Science Gone Awry

Was Amgen the Victim Of Test-Tube Robbery?

Life After Junk

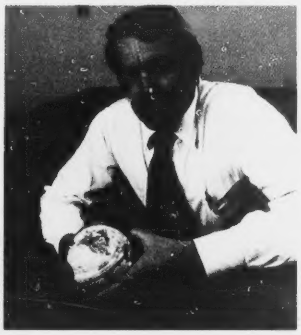
Has Wall Street Whipped You? Take the FaxPoll



JAMES MORGAN OF APPLIED MATERIALS

Business MONTH

MAY 1990



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Look, Ma. No hands. James Morgan of Applied Materials makes running a fast-growth company look easy. But his every step, from child boss to high-tech pioneer, has been a cleverly calculated move.

By John Sedgwick

Secrets of the Fast 100

They're the nation's fastest-growing companies—and the risks they face may be the deadliest in corporate America. We identify these highfliers—and anoint 10 as the best of the fastest. *By Dan Rottenberg*

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Clean Up Your Act

Executives complain that pollution control costs too much. Don't believe it. We found three companies that invested in recycling and saved $23 million in a year. Now what's your excuse?

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Mad Scientists

Amgen was the first to discover EPO, a blockbuster biotech drug. Then a judge ordered it to share the profits with a competitor. Moral: In patent law, smart lawyers beat brilliant technology every time.

By Edmund L. Andrews

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Decline of the American Empire

Race ahead 100 years. From that vantage point you might be able to see why society was disintegrating in 1990—and how America's collapse could have been prevented. *By Ben Stein*

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Has Wall Street whipped you? Tell us what you think

Cover Photograph: David Diehl

customer confidence you must not be afraid to take chances; fear of negative comments based on the quarterly return can lead to conservative behavior (translate that to mediocrity).

IRA WALLIS
Western Wallis, Purveyor of Polymers
Manhattan Beach, California

APPLE BLOSSOMS

JAMES KAPLAN MISSED THE POINT AS TO what is happening at Apple ("Rethinking the Feel-Good Manager," March). Companies predictably go through various stages of development—the first of which is the entrepreneurial stage (Apple under Jobs and Wozniak). In this stage, devotion, dedication, and, hopefully, growth are high. If a company succeeds (and Apple certainly did) and subsequently grows, it is inevitable that the entrepreneurial spirit is not enough to support this increase in size. Thus a more complex management organization is required. This is where Apple is now. None of this means that it was the "feel-good" management that caused the current problems, that this management style does not work, or that it is a failure. It only means that the organization must adapt to current size and goals.

FRED CASIELLO
Peabody Engineering
Stamford, Connecticut

TALKING TRASH

IN RESPONSE TO YOUR APRIL FAXPOLL Feedback on pollution: If you want to stop industrial pollution, you have to show how to make a profit out of waste. Penalties or fines don't prevent pollution; the cost is just passed on to the consumers and business still earns a profit. Legal suits don't prevent pollution; they just make lawyers rich, and the cost again is passed down to the consumer.

To stop pollution, the Government has to provide tax incentives to industries that develop certifiable methods of recycling waste. It can replace the revenue lost through the incentives with special taxes on commodities that cause environmental pollution. In this way consumers would pay for the waste they create and business would have an incentive to produce products that are cheaper and environmentally cleaner.

BOB ROBINSON
Streamwood, Illinois

TAKING ISSUE WITH IDIOTS

YOU ARE RIGHT IN YOUR MARCH FAXPOLL ("Are You Surrounded by Idiots") to focus on the problem of illiteracy in the workplace. You are right to poll your readership to try to get a fix on how businesses are feeling about the problem and responding to it. But you are *wrong, wrong, wrong* to characterize adult nonreaders or low-level readers as idiots. They're *not* idiots; they are—"more exactly," in your words—unschooled, undereducated, unskilled.

One of the major reasons adults hide and don't come forward to participate in literacy programs is exactly because they fear they will be viewed as stupid, as idiots. Employers with that attitude will never be able to create an atmosphere in the workplace that gives the low-skilled workers the freedom to come forward and get help.

NANCY OAKLEY
Director, Project Learn
Interchurch Council of Greater Cleveland
Cleveland

HAIL TO THE COACH

YOUR ARTICLE "FIT TO BE BOSS? CALL Your Head Coach" (Up the Ladder, March) is one ill-informed reporter's purely personal opinions about a profession and an outstanding practitioner.

I am a market researcher. When my business ran into problems in 1989, I personally researched the career-advisory services based in Manhattan. No firm or individual had the track record, expertise, and work in valid testing that Dee Soder's Endymion had. Nor would any firm deliver as well on its promise to provide you with sound business-based guidance that fits you and your personal situation.

Dr. Soder has helped me personally and professionally for eight months now. She has taught me to understand myself better and to approach situations with new and constructive insights.

ELLEN SILLS-LEVY
Marketing director
Connoisseur *magazine*
New York

Address letters to Letters Editor, BUSINESS MONTH, *488 Madison Avenue, New York, NY 10022. Or fax 1-800-766-7655. All letters must include the writer's name, address, and telephone number.*

A Poo

Are you really resigned to an illiterate work force? Incredibly, that seems to be your attitude toward the diseas that is slowly killing your companies' ability to compete and satisfy customers. Wrote one brazen executive: "Education is not the job of corporations."

"WE DON'T. We've given up," one reader wrote. Indeed, only 26% of you say you're either conducting on-site classes or paying employees to complete high school. More than one-third claim to be simplifying existing jobs—a legitimate approach to manufacturing errors but questionable when it comes to poor customer service. "We're officially ignoring the problem," moaned a subscriber, echoing the 21% whose companies are doing nothing about illiteracy. Then there were the 11% who suggested firing the undereducated or hiring only the strictly qualified. Good luck.

Report Card

27% reject more than half of all entry-level candidates

LOUSY CUSTOMER SERVICE (36% of you claim), manufacturing errors (21%), and high training costs (11%). One reader linked all the symptoms: "Manufacturing mistakes lead to quality-control problems, resulting in late delivery; and such poor customer service leads to higher cost of sales."

"PRAYER," suggested one reader. "Move to Switzerland," quipped another. The shocking fact is that most of you don't really want to get involved. Sure, 50% advocate donating money and lobbying the Government to spend more on education. While many railed against the education system, a mere 23% are willing to help schools plan curricula.

FaxPoll

ARE YOU SURROUNDED BY IDIOTS?

1. What percentage of entry-level candidates do you reject because they lack basic skills (the three Rs)?
2. In what ways do weaknesses in basic skills show up within your work force?
3. How are you dealing today with illiteracy at your company?
4. How high up your organization do you find educational handicaps?
5. Among managers, where do you see the most serious shortcomings?
6. How do entry-level deficiencies hurt you most?
7. What's the best way for corporations to improve worker literacy over the long term?

MISERABLE writing skills are rampant at your companies, say nearly two-thirds of you. Next on your gripe list: employees who can't communicate with customers (33%); poor abilities in math (27%); and reading skills (26%). (The totals exceed 100%, since many checked off more than one response.)

INCOMPETENT leaders are everywhere. Nine out of 10 of you report educational deficiencies among supervisors (22%), department managers (36%), or VPs and above (30%). To prove his point, a reader sent a one-page internal memo from on high—with no fewer than 14 errors .

MANAGEMENT'S SHORTCOMINGS

47%	32%	31%	21%
WRITING MEMOS OR REPORTS	SOLVING COMPLEX PROBLEMS	COMMUNICATING WITH SUPERIORS	ANALYZING STATISTICAL DATA

APRIL PREVIEW

OH, BOY...

Are you a ladies' man? It's a question we almost wish we'd never asked—except that your responses are setting a FaxPoll record. Listen to outraged women readers: "What is this sexist crap?" "Disgusting!" "Do you assume only men read your publication?" Fact is, 94% of our audience is male (which says a lot about corporate America today), and we wanted to let them respond to our special report, "Women on the Verge of Becoming CEO." We also felt the questions were of interest to both men and women. Example: Nearly half of you think the number of women in upper-level management is pitifully small. Next month, a full report on the battle of the sexes. Meanwhile, has Wall Street whipped you? Turn to page 84.

THE LIFE AND TIMES OF A FAST-GROWTH CEO

For James Morgan, it's simply a matter of vision.

BY JOHN SEDGWICK

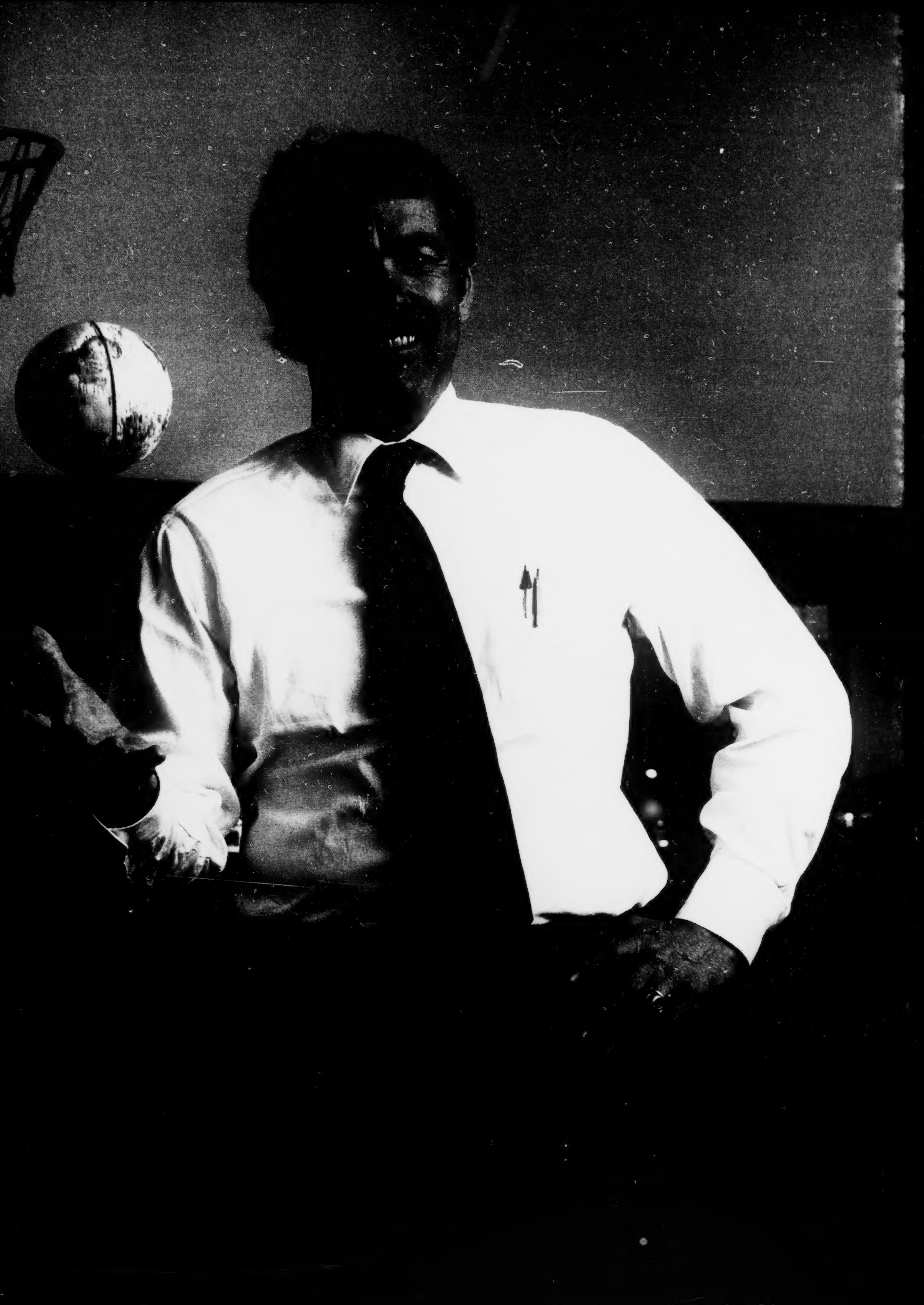
THE FIRST TIME JAMES MORGAN TOOK charge he was 13 years old. He spent that summer supervising the field hands who picked beans and corn for the family's cannery in the tiny farming town of Cayuga, Indiana. He was a surprisingly good boss for someone so young. So good, in fact, that at 16, he moved into the cannery itself as foreman, with considerable power over the company's 350 employees, nearly all of them significantly older than he was. He decided on his life's ambition that year. "I wanted to run something," he recalls. At the time, he had never heard the term chief executive officer.

At 21, he interrupted his studies at Cornell University and returned to Cayuga to take over the entire operation from his father, but he soon realized that a small cannery had no future. Large agribusiness corporations like Green Giant and Del Monte were squeezing out the smaller operations. Family is family, but business is business, so, much to the dismay of his grandfather, who had founded Morgan Cannery in 1912, he decided to move on. He didn't just want to run something, he wanted to run something big.

Today, the Morgan Cannery is out of business, and James Morgan is the CEO of Applied Materials, a $500 million semiconductor-equipment manufacturer in Santa Clara, California. It's not a *Fortune* 500 company—yet—but it is one of the fastest growing in America, and Jim Morgan made it so. The same single-mindedness and self-confidence that enabled a 16-year-old boy to supervise a cannery has transformed the once-fledgling Applied into a leader in its industry.

Self-confidence is not a trait one would expect to find in short supply among CEOs, but it is especially critical in running fast-growing companies, which must be able to move quickly to stay alive. Morgan's self-confidence and sense of mission border on the messianic. To his way of thinking, building a company is simply a matter of vision, of

PHOTOGRAPH BY GEORGE LANGE



being able to look into the future. Not that he has a crystal ball, but he does have a pretty good feel for the prevailing trends. More important, he has an uncanny ability to persuade others of his insights. It's not magic, then, but a kind of power—the power of belief—that makes Morgan what he is. Believing something makes it so.

All this steely-eyed confidence might be hard to take if it weren't cloaked in Morgan's hang-loose, Midwestern style. He moves with a Great Plains lankiness, and he speaks with a Hoosier farm boy's twang. Listen, for example, as he explains his philosophy on making decisions: "My style is to push my people till they make 'em themselves. If finally they can't, I'm always willin' to do it for 'em. I'm never afraid to make a decision. Kinda goes with the territory." The way he says all this, it comes off as more matter-of-fact than cocky, but underneath, there's not an iota of doubt about the outcome.

By the time he was 29, Morgan was running two divisions of Textron, with 1,600 people under his command.

Nor was there about the outcome of the decision taken by that teenage boy in Indiana in 1954. The road from the farm to Applied has been, for the most part, straight and narrow. Knowing that he wanted to get on the college track, Morgan went to a prep school, although not a particularly elite one, called Mercersberg Academy, in Pennsylvania. Then in 1962 he took an undergraduate engineering degree and, in 1963, an MBA—both from Cornell.

While in college, he joined the ROTC program to make sure that he didn't get sent to Vietnam as an Army private when he graduated. He also got lucky. He was still in basic training at the Aberdeen Proving Grounds in Maryland when he happened to hear that a position was opening up in the matériel command for a kind of management consultant to evaluate the Army as a business proposition. It was the perfect job for a proto-CEO, and Morgan went right for it. One of the companies he used as a model for the Army was Textron, which rewarded Morgan's attention by giving him a job as soon as his military hitch was up. By age 29, he was running two divisions of the company, with 1,600 people under his command.

Five years later, a couple of his Cornell chums helped set him up as a partner in a San Francisco venture-capital firm called WestVen. He wanted the position because he had the peculiar idea of using it as a springboard into a chief-executive suite. This is not the normal route to the top. As a rule, a new CEO is drawn from the senior-executive ranks within the company. Only failing companies look elsewhere, but even they reserve for themselves the privilege of conducting the search, generally through a committee drawn from the board of directors. Thus, would-be CEOs customarily await their fate like U.S. vice-presidential candidates or old-fashioned Southern belles—they make sure their names are out there, and then they wait for the phone to ring.

Morgan reviewed hundreds of companies while at WestVen and finally narrowed the list to three, one of which was Applied Materials. At first glance, Applied certainly didn't seem like a winner. In all-too-typical Silicon Valley style, it had been founded in 1967 by an entrepreneur, Michael McNeilly, who had far more skill at starting a company than at managing one. Within 10 years, he had run it practically into the ground. By the tail end of the 1974-1975 recession, after a whirlwind diversification process in which Applied bought into a semiconductor-wafer manufacturer called Galamar Industries and entered into a silicon-manufacturing coventure with Fairchild Camera, sales had dropped 45 percent and the company was dangerously overextended.

Even in the best of times, semiconductor-equipment manufacturing is a nerve-racking industry to be in. The technology alone is mind-boggling, with its thousands of parts all crafted to such microscopic tolerances that a speck of dust looms like a boulder on the highway. And every product line has to be completely overhauled every three years. One veteran Wall Street analyst says the technology gives him the chills.

In fact, so much time and effort goes into a few, extremely specialized products that even the largest firms ship only a few hundred every year, most of them completely customized, to a few dozen customers worldwide. The competition for those customers is fierce: Lose two or three and that's the ball game. Large, apparently well-established firms such as Fairchild, Mostek, or Perkin-Elmer could and did disappear from the industry practically overnight.

And that's only the beginning. The most frightening aspect of the business is its horrendous cyclicity. At the retail level, the computer industry, of course, is hardly a steady state, but every tremor is magnified as it passes back up the daisy chain to the companies that make the machinery that produces the chips that run the computers. It creates a frightful whiplash at the end. "The semiconductor-equipment industry has ups and downs like you've never seen ups and downs before," says Stephen Balog, an analyst for Shearson, Lehman, Hutton. "One week you have Motorola screaming at you, 'Faster! Faster! We need those machines today!' Then the next week, they say, 'Oh, about that order, I think we'll hold off for a few months.' The business is a real bitch."

Morgan was unfazed by any of this. He figured that so long as Applied was still alive, he could restore it to health. He regarded the industry itself as a welcome challenge, and the company's own woes were, if anything, providential: They meant Applied would consider offering the top job to a 38-year-old outsider. (Actually, while McNeilly endorsed Morgan, the board of directors was put off by his lack of experience. It preferred to start him as vice president of operations. But Morgan just waited for the situation to deteriorate a little more, and Applied came around.) In 1976, Applied's board named Morgan chief executive officer; McNeilly would remain as chairman. It wasn't until 1978 that McNeilly resigned and Morgan was given that title as well.

The new chief wasted little time making sweeping changes. He dumped the sideline ventures and stripped the company back to the basics of semiconductor-equipment manufacturing. "That part was still losin' money," he notes, "but it wasn't losin' as much." Then he went to have a little talk with Applied's major lender, the Bank of America, which was worried about its $4 million loan to an obviously troubled operation.

It just so happened that the Bank of America had been WestVen's financier and had acted as an informal go-between in securing Morgan the CEO job, so he was confident that the bank—looking to protect its $4 million—was in effect his partner in the campaign to raise Applied from the dead. He was right; there was little resistance to his suggestion that it might be best for everyone if the bank, instead of calling in its loan, doubled Applied's line of credit.

Speed With Stamina: The Best of the Fastest

TWO HIGH SCHOOL KIDS GROW UP together. Really grow. Each hits six feet, nine inches and goes to college on a basketball scholarship. Then their paths diverge. One works on his dribbling and passing and ends up in the pros. The other, getting by solely on his height, becomes a bench warmer.

So it is with corporations. Many pile up impressive sales gains; only an elite few develop into solid, all-around, enduring companies—good enough to make BUSINESS MONTH's list of top-10 growth companies.

How were they picked? By definition, a growth company's sales are rising at a rapid clip. Our 10, then, had to be one of the American companies with the hottest sales growth (page 45). But we were biased in favor of internal sales gains. Acquired growth often brings serious, unexpected problems. So Maxxam Inc., the fastest-growing company based strictly on sales over the last four years, is not among our top 10. It is a recently built conglomerate mix of lumber, aluminum, and real estate that hasn't proved its staying power.

A real growth company also sports rapid profit growth. We factored that in along with a company's return on investment and its debt load. To make the list, a company also had to reach a size that will help it survive when trouble erupts. Finally, we considered a company's competitive position and its momentum.

The last two factors put Microsoft at the top of the list by the slightest of margins over Compaq Computer. Microsoft has become more and more dominant among the independent companies in the computer-software field, and its sales and profits continue to climb without interruption. Compaq faces severe competition in the personal-computer market—though to be fair, it always has—and its enviable growth record has stalled recently. Another small edge for Microsoft: It has no long-term debt.

It's no surprise that half of the top 10 are in computers. Sun Microsystems (see story page 42) makes workstations; Stratus Computer, "fail tolerant" systems of paired computers; 3Com Corp., local area networks. But three others—Reebok, Home Depot (do-it-yourself building materials), and Costco Wholesale (members-only outlets for consumer goods)—are in far more prosaic businesses. One of the best of the lot, JWP, Inc., simply installs and repairs electrical and mechanical systems for offices.

This is a very selective list. We had to go almost halfway down the table of 100 fastest growers by sales to come up with the 10 best companies overall. Corporations with very impressive numbers didn't make it. Seagate Technology, the disk-drive manufacturer, was one. Its overall growth rates mask the fact that its profits fell to practically nothing in the year ended last June. Genentech was a candidate until it decided to sell a controlling interest to Roche Holding Ltd., indicating an inability to survive on its own. Lewis Galoob Toys was pretty small and basically a one-product outfit in a fickle business.

One company that was hard to leave off the list for sentimental reasons was that great old name, M.A. Hanna (story page 43). But Hanna's resurrection sprang from acquisitions—and rules are rules.

For the record, JWP and Sun Microsystems had by far the best sales growth of our top 10; Home Depot and Compaq Computer had a similar lead in profit growth. Microsoft and Compaq had the best return on their shareholders' investment.

Only history will tell if these 10 companies are as good as we say they are. Nobody on the list has a divine right to success. Some of the winners have piled up potentially troublesome debt burdens: JWP, Sun Microsystems, and International Lease Finance, which buys modern jet planes and leases them to airlines.

Reebok has to keep trying to outleap Michael Jordan. Home Depot and Costco confront tightfisted shoppers. All eyes are on Compaq as it tries to recover from the first serious setback in its short history. Stratus Computer and 3Com have reached something of a critical mass but could still be steamrollered by giant corporations; 3Com right now is trying to regain lost momentum.

But meeting competitive challenges head-on is what made these companies the best.

THE TOP TEN

Microsoft Corp

Compaq Computer

JWP Inc

Sun Microsystems

Home Depot

Reebok International

Stratus Computer

Int'l Lease Finance

3Com Corp

Costco Wholesale

That done, Morgan announced what was undoubtedly the biggest surprise of all. The company was going to invade Japan. His first foray was a joint venture in 1979, only three years after he had taken over a company on the verge of financial collapse. Six more years, and Applied Materials Japan opened a plant next to Tokyo International Airport. One-third of the initial capital came from the Japanese Development Bank, an agency of the Japanese Government, its first cash loan to an American firm.

In hindsight, of course, this move seems perfectly obvious, since so many of the customers for Applied's chip-manufacturing equipment are now Japanese. At the time, however, Japan was not at all a major player in the semiconductor industry. Most of the companies that Applied was selling to were American, so it made better sense to stay put. At least, that's what all of the company's domestic competitors were doing. But Morgan could see that the big U.S. electronics companies—IBM and Texas Instruments, for example—were already established in Japan, and he figured it would pay to be the first in his industry to make the move. "I've always believed in being early into new markets and new products," he says, "because people appreciate you when you're early. Somebody coming late is just another guy trying to make a buck."

That was probably the most testing time for Morgan, but to judge by the results, he came through pretty well. Currently, Applied derives 45 percent of its sales from Japan, almost three times the industry average, and it actually outsells the Japanese in their own country in three out of four product areas. It has moved into Western Europe, Korea, and Taiwan as well. In going global, Morgan managed to leapfrog ahead of the competition into what would be the hottest growth markets. He also achieved the necessary scale for funding the world-class research and development and field service and sales operations that have proved critical to Applied's growth. Globalization, in short, gave him important leverage. "That's the company's genius right there," says Balog.

THINGS WERE BEGINNING TO SETTLE DOWN WHEN THE inevitable recession descended on the industry in 1985. Morgan always saw such slow times as an opportunity to push R&D, and when this one hit, Applied was already trying to develop a machine that could manufacture a more reliable wafer faster. Now the project could move ahead quickly. But there were different schools of thought within the company on the best technology. The marketing chief, Robert Graham, wanted to invest in a system designed to crank out batches of chips 25 at a time. Others thought the future lay in a superfast, one-at-a-time, multiple-chamber system. The batch technology existed; the other was a dream. For a growing company like Applied, there was no room for error. Morgan had to bet the company on one or the other, and emotions on both sides were high. But, as Morgan dryly notes, "I didn't do a poll."

The decision came down to short term versus long term. The batch system was for the present; the multiple-chamber approach was for the future, since it allowed the production of customized recipes for individual wafers, and that appeared to be the emerging need among chip manufacturers. The answer was obvious: Morgan chose the future.

Now the only question was whether his technicians could produce such a thing. Despite the industry recession, he jammed down the accelerator on R&D spending, pushing Applied's expenditures to number four in the whole electronics industry as a percentage of sales. The result was the hot-selling Precision 5000 series, which pioneered the multiple-chamber process. It has been praised by the semiconductor-equipment manufacturers' trade organization, VLSI, as the most successful piece of capital equipment ever produced in the industry.

'I have never thought of asking the board of directors what to do. My job is to tell them what the right thing to do is.'

. . . .

Graham was keenly disappointed with Morgan's decision. Then in 1986, when he was passed over for company president in favor of Jim Bagley, Graham left to head up a new company called Novellus Systems based on the batch technology he had tried and failed to press on Morgan. Now Novellus is nipping at Applied's heels, occasionally lapping up a major order that Applied would have liked, but Morgan betrays no resentment over the development. "That was a fair deal," he says in only slightly begrudging tones. "Bob's been a good competitor." He pauses. "Now, if he'd taken the technology from Applied Materials and gone, I'd have a big problem with that. But I don't have a problem with a good competitor."

Maybe so. But there are many analysts who see Novellus more as a *worrisome* competitor for Applied. "Novellus is very hot right now," Balog says. "It did $65 million last year. And that is $65 million that Applied might have had." McNeilly agrees. "I would have tried harder to hold on to Graham," he says. Nevertheless, the decision had to be made, and whatever his reasons, Morgan made it. "It is almost impossible for CEOs to be completely candid," says Arizona State management professor Mark Pastin. "Not to their boards, not to their underlings, not even to their spouses." The CEO cannot express doubts or ask questions freely. If the company is having trouble with a new product, he cannot go to the board and ask what it thinks he should do. Nor can he go to the division head in charge of the product to express any reservations. If he does, résumés will start flying.

Morgan claims that he has not experienced much trouble in this area because he rarely has any doubts about what to do. "I have never thought of asking the board. My job is to tell them what the right thing to do is," he says.

So how does Morgan know what to do? How does he make the kinds of decisions that have made Applied that rare thing, the truly well-managed company? Ask him and he will say that he just does what's right for the company. For a man of such convictions, life is pretty simple.

By the same token, if you ask him why he wants to run a company like Applied, he'll look perplexed for a second and say it's because he always has. Not for the standard trappings of success. He rides coach on commercial airlines rather than cruise in style aboard a company jet, uses the vending machines in the employee cafeteria rather than take his meals in an executive dining room, works out of a small, modestly appointed (one associate called it "Southwest meets the Orient") office in a manufacturing building rather than any more exalted quarters down some mahogany hallway. His salary is set at the 75th percentile of all the companies in his industry, currently about $350,000 a year, and he receives a bonus if the company reaches certain goals. "That way, you get more, the better you do for the company," he says. Last year's bonus brought his total earnings to over half a million. He plowed most of the money back into company stock.

And while it is conventional for CEOs in more sedate industries to put in a variety of guest appearances on the boards of other corporations, charities, colleges, and cultural groups, Morgan limits himself to those boards where his presence can actually accomplish something rather than merely win him Brownie points for showing up. Because of his near-total identification with the needs and aspirations of Applied, most of his goals are purely business related, but he succumbs to the appeals of an occasional charity. He serves on a board pushing for tort reform in California to reduce the excess lawyering that is one of Morgan's pet peeves about American business. He joined the President's National Advisory Committee on Semiconductors—along with such electronics-industry luminaries as Ian Ross, president of AT&T's Bell Laboratories; Charles Sporck, CEO of National Semiconductor; and Jerry Junkins, chairman of Texas Instruments—to help guide national policy on such major consumer-electronics projects as high-definition television. "That was a 'your country calls' kind of a thing," his PR director, Tom Hayes, says almost apologetically. And he serves with Sony Chairman Akio Morita on the Japan-Western Association, designed to foster relationships between Japan and the American West.

Partly, of course, Morgan's low profile is merely the trimmed-down Silicon Valley style. But then, he set out to run something, not rule it. He derives enough satisfaction simply from being in charge. There is also a point to his no-frills style: He wants to reduce the distance between himself and the employees on whom the success of his effort depends. "Too much formality gets in the way of communicating," he says. In large, established companies, one can ascend to the top of some grand tower to take the detached view; in smaller, growing companies, it is essential to stay close to the trenches, to keep abreast—personally—of each day's developments. Morgan often speaks of "porpoising" down into the company to check things out at the lower depths, which means he spends much of his time patrolling the corridors.

And he arranges his schedule around the far-flung time zones of his growing empire—calls to Europe in the morning, calls to Japan at the end of the day. Big as Applied has become, it is important to him to stay close to "the people." He insists on being called Jim by all of his 3,300 employees, and to show that he's no better than they are, he proudly wears a nerdy pin adorned with the letter Q on his lapel to show that he, too, supports the "quality process" he initiated for the company. (Fortunately, he has a sense of humor about his quality mania. At one company get-together, he dressed up as "Qualityman," with a big Q emblazoned on his chest.) In this, his attitude is nearly Japanese, and it flies in the face of the old-style corporate caste system in which the CEO is Louis XIV and the employees are the mob.

THE PITFALLS OF DYNAMIC GROWTH:
MARKETS GET ROUGH...

PHOTOFEST

Still, one can see some troubles looming as Morgan strains to be involved in every aspect of the business—he even selected the exact shade of blue for the Applied Materials logo. He is usually one of the first ones in the office (thereby obviating any need for a private parking space) and one of the last ones out every day. But there is only so much one man can and should do. As Arizona State's Pastin notes, the best-managed companies are the ones in which the chief executive takes 25 percent of his time to be alone and think. It is hard to see where Morgan is going to get that. At a certain point, some detachment is necessary.

Morgan could step back if he followed his own theory of management. In a perfect world, he says, he would act less like a CEO and his employees more like one. By this he means that he could skip the kingly routine if his employees could learn to operate from the big picture that was once thought to be visible only from the throne in the corner office. His employees should be as attentive to the full range of corporate interests, from sales to technology to manufacturing, as Morgan is. In short, they should increase their awareness and enlarge their vision to the point where it takes in the whole company's perspective, not just their own.

There are many ways to measure how much of his vision Morgan has accomplished at Applied. Sales, for instance, have risen from a few million when he took over to $500 million in 1989 (10 percent of the total semiconductor-equipment market), and the company has set its sights on $1 billion by 1993. He has assembled a leadership team that is the class of the field. But the company's stock price might be the most impressive yardstick (although Morgan thinks the stock should be doing better and spends considerable energy railing about how much, in his words, "it sucks"). Over the last decade, many companies in the semiconductor-equipment industry saw their stock value drop. A half dozen outperformed a passbook-savings account. Only one has beaten the market, and that one is Applied Materials.

Analysts like to cite the different needs of growing companies and mature companies to explain the essential distinction in the managerial styles of CEOs. The younger the company, the brasher the CEO; the older the company, the more "statesmanlike." As Applied closes in on the *Fortune* 500, Morgan talks more about maintaining the essential order of the company so that it can afford to do the "mavericky" things that growing companies have to do. Nowadays, however, a more important factor in dictating a CEO's style than company age may be the global competition (supplemented in many cases by the threat of a takeover) that is hitting many U.S. companies at every stage in their life cycles. As the electronics industry has found, those pressures can have a profound meritocratizing effect on the corporate culture, forcing companies to adopt what they call at Applied a "lean, mean, where-the-rubber-meets-the-road operation." Such companies have no room for hollow crowns.

Actually, the way Morgan sees it, if he did his job perfectly at Applied Materials, he would disappear entirely. He would have instilled the CEO perspective in the corporation, and he could simply dissolve into that porpoise-filled sea. But as it is, he has too many plans. He is thinking of pushing the company into Eastern Europe. He has been following the developments there with considerable interest since he went to the Soviet Union in 1988 with the Young Presidents Organization and sat down with one of the state's chief economists. "It was just like Applied when I first got here," he says. "A disaster." And there's another line of products to bring out. And maybe expanded operations in China. Somebody has to be in charge of all that. ■

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Companies on the Move Are Companies at Risk

By Dan Rottenberg

Expansion means complexity; complexity decay.
—C. Northcote Parkinson

COLUMBIA UNIVERSITY BUSINESS PROFESSOR DONALD Hambrick had just published a scholarly paper based on his continuing study of 30 of the nation's fastest-growing companies. His goal: to separate the stars from the stumblers and provide some guidelines for managers who attempt the dizzying transition from entrepreneurial venture to sprinting middleweight to major corporation. Among the positive role models he cited—this was in 1985—were Apple Computer, People Express Airlines, Cray Research, and Cullinet Software.

> *Amid the chaos of 80-hour weeks, confused CEOs lose sight of the strengths that led to their success—and watch their companies tumble.*

The ink on his paper was barely dry before his favored four ran up against one of Parkinson's more perceptive, if lesser-known, laws. The complexities of expansion had quickly sandbagged Cray, devastated Apple, and all but destroyed the other two. Frustrated, Hambrick eventually shelved his project.

His chastening experience is not unique. In their 1982 best-seller, *In Search of Excellence*, Thomas Peters and Robert Waterman Jr. thought they had explained the success of 43 fast-growing American companies. Within a few years, more than one-third of those paragons were floundering. "It almost makes me fatalistic about the inevitability of stumbling," says Hambrick today. "You just can't sustain this sort of growth forever. At some point, something—industry conditions, internal governance—will unravel. The real irony is what a rocky and vulnerable existence fast growth is."

Congratulations to the CEOs of Business Month's Fast 100 growth companies. But hold the celebration to one sliver of cake. Your management job has just begun. Off-the-chart sales growth is so seductive that many managers kid themselves into thinking that a growing company is a thriving company, and the faster the growth the more robust the corporate health. Repeated studies suggest almost the opposite.

A company's welfare and even its survival are most at risk during the periods of its greatest growth. A dramatically growing company must continually expand its plants, find new sources of supply, hire more managers and workers. Bigger rivals try to crash the very market the new company created. The number of decisions to be made mushrooms, and some may never get made. Amid such chaos and the strain of 80-hour weeks, even the best people burn out. Confused CEOs lose sight of the strengths that generated their success in the first place—and their companies tumble. "Lots of small companies can't succeed once they've grown into something more than small companies," says Robert Hansberger, the former CEO at Boise Cascade who is buying up smallish enterprises for his Futura Corp.

Large, established companies whose names pepper the fastest-growing list can stumble, too—but for different reasons. Philip Morris, USAir, and Stone Container, for example, have grown largely through acquisitions. It remains to be seen if those will pay off or go sour, as did so many of the big deals made in the last decade and a half. A large part of the restructuring of America has centered on getting rid of businesses that once appeared to be juicy acquisitions. At best, the acquirers face the problems of melding disparate corporate cultures and imposing big-company standards on smaller concerns. Says Hansberger, "Large companies, accustomed to throwing bureaucracy and money at problems, inevitably have trouble understanding just what it was that made the acquired company successful."

There's no certain protection against the hazards of rapid growth. Experts agree that the dangers can at least be minimized by trying to anticipate them. But following the fortunes of Professor Hambrick's onetime darlings shows that even thoughtful planning may not help. Cray Research founder Seymour Cray brought in professional management early on to guide his company's growth. But the supercomputer company's sales have stagnated, and competition from Japan may hurt Cray in the long term. Seymour Cray now runs a company that was recently spun off from the parent; he's trying to build a supercomputer run by gallium arsenide chips.

People Express, the great but short-lived discount airline success story of the mid-'80s, thought it could get along without big doses of outside management. The company promoted from within—and for a time esprit de corps and profits soared along with passenger volume. But employees who functioned capably in a small-company setting weren't able to control what suddenly became a major-size carrier. A smarter management might have done its employees a good turn by expanding at a less reckless clip, giving them time to learn. People Express was finally merged into Continental Airlines.

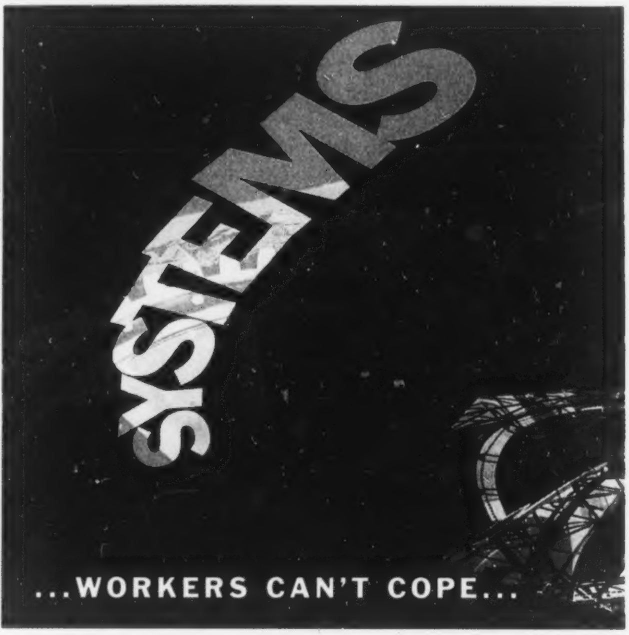
Cullinet was one of the early movers in the independent software industry. But in the late '80s, it fell behind in the technology race, and computer users became more inclined to buy database software from hardware giants like IBM rather than independent vendors. Cullinet was swallowed up by Computer Associates International last year, after it had lost money for eight straight quarters.

At Apple Computer, cofounder Steve Jobs recognized his pioneering PC company was being torn apart from within by factional rivalries and from without by battles with its dealers. He hired a professional manager, John Sculley of PepsiCo, to smooth things out. Everybody knows what happened to Jobs after that. It was Apple's misfortune that both its founders, Jobs and Steve Wozniak, were tech nerds. Hewlett-Packard, started up two generations earlier, had better luck. David Packard was the visionary responsible for the electronics company's fast growth; William Hewlett was the inside manager who kept the racing craft stable.

Managing fast growth is not a new problem. Entrepreneurs have had trouble keeping pace with explosive growth ever since Henry Ford and William C. Durant. The auto legends neglected to develop management structures and lost touch with their markets. Their companies stagnated until the patriarchs were replaced by administrators with more scientific methods.

Many of todays's fast growers have avoided that mistake by making an early switch to professional managers. Tele-Communications Inc. founder Bob Magness hired John Malone as his president in 1973. Since then TCI has grown from a $92 million-a-year cable-TV operator to the industry's leader, with annual revenues of well over $3 billion—though it is losing money (see story page 42). Three years ago, Reebok's Paul Fireman wanted to sustain his company's momentum by broadening its base from sneakers. He hired as his president C. Joseph LaBonte, the former president of 20th Century-Fox Film Corp. and an acquisition specialist.

Microsoft cofounder Bill Gates has gone through the exercise twice. Seven years ago, he hired Jon A. Shirley from Tandy Corporation to take over his software company's day-to-day management, freeing himself to concentrate on technology and planning. Now Shirley is retiring and will be replaced by Michael Hallman, president of Boeing Computer Services. While they come in with big corporate ideas, Microsoft's managers have tried to maintain the company's small-time spirit. Two years ago, they reorganized into a series of small groups—each responsible for turning a profit.



CHAPLIN: KOBAL COLLECTION; ROLLER COASTER: H. ARMSTRONG ROBERTS

Effective professional management can be grown from the inside. A half-century ago, IBM founder Thomas J. Watson Sr. insisted that a company should get its leaders from within, but only after training them rigorously so that they were capable of running a fast-growing enterprise. Watson wanted a management team that perceived itself as an elite corps, prepared to handle a much bigger business than IBM was at the time. "If you want to be a big company tomorrow, you have to start acting like one today," he said.

Some of today's fast growers have taken Watson's advice to heart. All of Compaq Computer's founders were Texas Instruments veterans who set up major-league systems at their company's inception in 1982. As a result, Compaq hasn't needed to change its accounting system or its management structure since day one—though its annual sales are now nearly $3 billion. (It's interesting that Compaq adopted IBM's theory, since its success is a clone of IBM's own: Compaq moved ahead on its marketing prowess, not its technological skill.)

But there's a subtle difference between thinking big and acting big. Los Angeles consultant Ian Sharlit says a growing company should resist the temptation to expand its overhead at each new spurt in sales. Managers, he says, should hire just enough people to handle the minimum of sales volume suggested by their projections. This might cause some overtime if sales take off, but the company will be "more efficient and there's less risk and less need for financing," he says. Another Sharlit rule of thumb: A smaller company—one with sales of less than $400 million—should not risk more than 30 percent of its net worth on any new product or venture. The bigger the company gets, the less it should risk, the consultant says. A multibillion-dollar-sales company might limit its gamble to 10 percent of its net worth.

Companies that grow by acquisitions can reduce their risks by taking time to digest one deal before jumping into the next. Viacom, Inc., began as a small distributor of TV shows spun off from CBS. It built up that business, which now includes *The Cosby Show* and *Roseanne*, and one step at a time moved into cable-TV systems, television and radio stations, and programming for cable. Viacom's strategy helped it to survive against competitors with deep pockets. Attitude may have helped, too. In 1985 Terrence Elkes, then Viacom CEO, said, "As long as we don't believe our publicity, we'll be okay."

Shrewd CEOs increase their chances of maintaining growth by making sure there is always somebody around to say no. Milton C. Lauenstein, a Gloucester, Massachusetts, consultant, pointed out in a recent *Harvard Business Review* article that growing companies need optimistic, self-confident managers—just the sort of people who are unlikely to subject themselves to diligent examination by their fellow executives. Management experts suggest that fast growers set up devil's-advocacy procedures within their companies to make sure that alternative scenarios are debated. Lauenstein says the companies should also stack their boards with informed, active outside directors who "take a more objective view and exercise appropriate restraint."

The chief executive officer who survives fast growth, says Ian C. MacMillan, director of the Wharton School's Snider Entrepreneurial Center, is one who has "some kind of vision" of what he wants the company to be—and the ability to communicate his goals to other people. That's a bit platitudinous, but MacMillan gets more helpful when he adds that companies should build on their "existing competencies." He even cites an unlikely role model: General Electric. Despite its size and age, GE since 1980 has managed to build five new billion-dollar businesses in such diverse areas as plastics, aerospace, medical diagnostics, and financial services. "They're a lot more entrepreneurial than people think," MacMillan says of GE. "They tend to be good at extending their existing capabilities into new product areas, instead of being suckered into areas where they lack real competence."

GE and others present good models, and management experts give good advice. That will not save some of today's fast-growing companies, however. The sad truth is that a few will self-destruct for no other reason than that they have grown too fast. An ominous note: Twenty-two of the companies on the fastest-growing list lost money in 1989. Generating cash flow is important. Fighting off foreign competition is absolutely necessary. But managing rapid growth may be the toughest job a CEO ever faces.

Dan Rottenberg is a Philadelphia-based journalist.

Life on the Speedway: Many Faces of Growth

AN UPSTART'S RITE OF PASSAGE

THE TRUE MEASURE OF A GROWTH COMPANY IS HOW IT REACTS when the inevitable crisis hits. Last summer, Sun Microsystems was veering toward high tech's black hole. The country's leading manufacturer of computer workstations had suddenly gone stupid. It didn't know which of its products were in most demand or how much it had in the bank. Costs seemed out of control; Sun was losing money. At the same time, a pair of key executives bailed out. Sun, which made its reputation by teaching customers how to manage vast amounts of information, couldn't manage itself. Then, just as rapidly, Sun got smart again.

CEO Scott McNealy, who had been off concentrating on research, took full control of day-to-day operations. He began chipping away at the company's Animal House image by hiring experienced managers from the outside. Sun got its in-house computer systems up to date. But most important, the company decided to stop growing so fast. It has pared its product line. Salesmen are being discouraged from pursuing sales of less than $500,000. Executive bonuses are now based on return on assets rather than sales. "People are being held accountable and taken to task if they don't perform," says Austin Mayer, Sun's director of corporate development. "We discovered we can enhance our profitability by slowing down."

That is quite a change for a company that had placed unbridled emphasis on sales growth. Sun was quick to capitalize on the market for workstations, those turbocharged desktop computers that allow heavy-duty users to communicate with mainframes, supercomputers, and one another. But Sun executives were convinced that it wouldn't be long before the computer giants would crash their market—and that they should prepare for that day by building market share at any cost.

The all-out growth philosophy prevailed until last summer. Unable to turn out its new products fast enough, Sun had boosted sales by offering deep discounts on older lines. Sales of the older products then soared beyond expectations, slaughtering profit margins. With its own computer systems in disarray, the company lost control of its inventory. At one point, there was a three-foot stack of sales orders waiting to be entered into a computer. Not knowing what its sales force had sold, Sun was at a loss as to which products to make. Says Mayer, "We had to guess what was in there, and we guessed wrong."

It's surprising that the crunch didn't come sooner. Sun had grown so fast that at one point it was adding 350 new employees and opening a new sales office every month. "It was tough just keeping up with the growth, much less managing or directing it," says Mayer. "We wanted to get market share, and we didn't have time to worry about infrastructure." The result was chaos. Divisions seemed to spring up overnight. Product strategy bubbled up from these autonomous operations with little central planning. Salesmen pulled McNealy out of meetings to help them close deals. Engineers spewed out a stream of innovative but unwieldy workstation options. Sun relied heavily on word of mouth to sell its hot, high-powered machines—it didn't even have an advertising budget until two years ago.

Disorganization seemed normal at a company that held its first board meeting in a McDonald's and where engineers once turned McNealy's office into a golf course, complete with fresh sod, as an April Fool's prank. Hired once to entertain at Sun, comedian Pat Paulsen quickly sensed the corporate spirit. "What's the difference between Sun and the Boy Scouts?" he asked. "The Boy Scouts have adult supervision."

Sun managers still jog at lunchtime. There are still dress-down days and monthly beer bashes. But since last summer's scare, the management style has noticeably toned down. "Informality is fine when you can get all the key players in one room," says Hambrecht & Quist analyst Robert Herwick. "When you have 10,000 employees, it doesn't work. The loosey-goosey guys are gone. They've been replaced by people who have experience in more formal structures."

Sun has changed personalities, but its prospects remain bright. Its market share is 36 percent and growing. The company turned profitable again in the September quarter and is trying to improve earnings even more through cost cutting. Kevin Melia, the new vice president for worldwide operations whom McNealy hired away from Digital Equipment, hopes to squeeze $100 million out of Sun's inventory costs. A more aggressive collection of the company's accounts receivable may yield another $100 million. Sun expects its sales in the year ending June 30 to rise to $2.4 billion, a 33 percent increase. That doesn't begin to compare with the past record. But Sun has wisely opted for a safer flight path.—*Gerald Lubenow*

TRIALS OF A LONG-TERM THINKER

NO DOUBT ABOUT IT, TELE-COMMUNICATIONS INC. IS THE TITAN of cable television. It's the largest operator of cable systems in the country. TCI and its affiliates account for nearly 25 percent of all cable subscribers. It has a strong presence in cable programming, including a 25 percent interest in Turner Broadcasting System. What's more, TCI's president and CEO, John C. Malone, is cable's leading spokesman. Ken Berents, an analyst with Alex. Brown & Sons in Baltimore, says Malone "is considered the William Paley of our time."

That brings up a question: Did Bill Paley's CBS ever lose $257 million in one year? Malone's TCI did just that in 1989.

Cable-industry experts weren't surprised—or overly concerned—by TCI's huge loss last year, because Malone's strategy is strictly long-term. He wants to borrow big, accumulate assets, and generate cash flow—and worry about profits in 1995 or so. Perhaps any executive who thinks in the long run these days should be applauded. But will his stockholders stick with him? TCI's debt already totals $8 billion, and even the most patient investors may be unwilling to wait until halfway through the decade for a payoff. Especially if they have already owned the stock for a few years.

Malone's fortitude is also being tested by events in Washington. Deregulation of the cable industry in 1986 was quickly followed by a chorus of complaints that the cable monopolies were raising subscribers' rates to exorbitant levels and providing lousy service. The Congressional hoppers are now brimming with bills that would recontrol rates and limit the industry's expansion both horizontally and vertically.

Malone has certainly executed his strategy in a rational manner. He gradually amassed a huge cable empire that operates systems in such markets as Chicago, St. Louis, and Washington, D.C., and has 11 million subscribers. Those revenues have fattened up since deregulation; in the last three years, for example, TCI hiked its St. Louis customers' monthly rates from $9.45 to $15.23. But even with those increases, TCI's cable business loses money. That's because the industry is now on a new leg of expansion intended to increase cable's market penetration of American television homes from 50 percent to 70 percent. TCI, like its competitors, is pouring huge sums into the new wiring binge.

TCI has milked its huge subscriber base for more than increased revenues. It has used its large audience as a bargaining chip to get major cable programmers like MTV and ESPN to lower the fees they charge TCI systems for carrying their products. Malone has also used cash flow from his wire systems to take a direct stake in programming. TCI and other cable-system operators invested in Turner Broadcasting when Turner was laden with financial problems. Turner's subsequent recovery made it a good deal. TCI also owns shares in American Movie Classics, Discovery, Black Entertainment, and the Family Channel. Unlike the wire systems, programming is a profitable business.

...THE BOSS WON'T QUIT

KONG: KOBAL COLLECTION; TRAIN: THE STOCK MARKET

The threat of reregulation has forced Malone to reverse his programming strategy to some degree. He plans to spin off this operation—except for Turner—into a separate company. He hopes this would satisfy Congressional critics who see a conflict in cross-ownership of wire companies and programmers. The stock price of the spun-off business might rise too, since its profits would no longer be masked by the cable losses. The spin-off doesn't really resolve the cross-ownership question, however, since the programming unit would still be under Malone's sway.

No one knows what, if anything, Congress may do on the reregulation front. But life never runs dull at TCI. And while Malone's management may be controversial, he is willing to risk his own neck for his policies. He and TCI Chairman Bob Magness own 10 percent of the company's stock. At recent prices, that comes to a total investment of nearly $500 million.—*Larry Weber*

ADRENALINE IN THE RUST BELT

M.A. HANNA. ISN'T THAT THE OLD MINING COMPANY OUT OF Cleveland? Harnischfeger Industries of Milwaukee. Even the name sounds obsolete. Illinois Tool Works. That must have been Chicago's leading company in 1895.

No one expects to see such Rust Belt anachronisms on the list of America's fastest-growing companies. Yet Hanna, Harnischfeger, and ITW are right there with the nifty computer concerns and the hot marketing organizations. It's true they made it on the basis of acquisitions rather than internal growth, but the alternative may have been stagnation or worse.

Hanna is indeed Hanna Mining—but in much different form. In the 1980s it shed *Mining* from its name and sold off most of its money-losing coal and iron operations. CEO Martin (Skip) Walker, recruited from Rockwell International in 1986, then spent $500 million on five acquisitions that put Hanna into an entirely new field: specialty chemicals. Ninety-six percent of the company's sales now come from polymers.

Hanna's transformation proves that even out-of-step companies have hidden strengths. The company was conservative, sure, but that meant it had a strong balance sheet and a solid reputation. Walker put both to use when he floated a $75 million issue of preferred stock within months of his arrival. There has been just one drawback. Says Walker, "You go to a party or a Wall Street meeting and people still say, Oh, you're with Hanna Mining."

Harnischfeger is a 106-year-old maker of power cranes, electric shovels, and other decidedly untrendy mining and construction equipment. Its growth secret was the 1986 acquisition of an even older, more prosaic company: Beloit Corp., a manufacturer of pulp and paper machinery founded in 1858.

The two companies were ideally matched. Both were family controlled and were headquartered just 70 miles from each other. The timing was perfect. Harnischfeger bought Beloit in the midst of a down cycle for the paper industry; today, in an up cycle, Beloit accounts for two-thirds of Harnischfeger's business. "It's the case of two 100-year-old Rust Belt companies that found new life by marrying each other," says Harnischfeger Senior Vice President Richard Schulze. "Together they have the critical mass to do things they couldn't do on their own. As a result, both are well fixed for the 1990s." Harnischfeger hopes that another 1986 acquisition, Syscon Corp., which provides software for the defense industry, will help it ride out slumps in capital goods.

Illinois Tool Works makes engineered industrial components and machines to produce or apply them. It nearly doubled its size in 1986, buying Signode Industries, a packaging company that had long done business with ITW. It grew again last year with the purchase of Ransburg Corp., a manufacturer of electrostatic coating systems.

Fedders Corp., another rusty name, turned itself around not through acquisitions but by getting smaller before it got bigger. The company abandoned its central-air-conditioning business in 1983 to concentrate on room units. While the rest of the industry cut back in room air-conditioning, Fedders expanded. Result: Fedders's share of the North American market jumped from 10 percent in 1985 to today's 30 percent.

The success of some of these Rust Belt companies has come hard. Hanna lost money for five straight years through 1986. Harnischfeger, sandbagged by the capital-goods recession in the early 1980s, showed a meaningful profit in only one of seven years through 1985. Fedders suffered through nine consecutive years of red ink before 1983. The companies' big challenge now is to keep from slipping back into the pit.
—*Dan Rottenberg*

THE FAST 100

From unknowns like Maxxam Inc. and Trak Auto to household names like Capital Cities/ABC and Wal-Mart, these are America's fastest-growing companies. They are ranked by their average annual sales gains for the past four years. We juxtaposed that with the companies' profit growth in the same period—to separate those that grew with a purpose from those that may have expanded willy-nilly. To make the list, a company had to be publicly held, have been in business for at least five years, and have had posted sales of at least $50 million in 1985. We eliminated foreign corporations, financial companies, leveraged buyouts, subsidiaries, and limited partnerships. The numbers were supplied by Standard & Poor's Compustat Services, Inc.

AMERICA'S TOP GROWTH COMPANIES

Rank	Company	Average Annual Sales Growth	1989 Sales (in millions)	Average Annual Profits Growth	1989 Profits (in millions)	Industry
1	Maxxam Inc. *Los Angeles*	515.4%	$2,423.3	NM	$116.8	*Lumber, aluminum, real estate*
2	Sun Microsystems, Inc. *Mountain View, California*	260.5	2,062.5	70.2%	36.1	*Computer workstations*
3	Mark IV Industries, Inc. *Williamsville, New York*	252.0	912.6	112.4	26.1	*Audio, industrial equipment*
4	JWP Inc. *Purchase, New York*	244.6	1,741.7	127.8	38.8	*Technical office services*
5	Itel Corp. *Chicago*	193.8	2,121.1	NM	29.9	*Container leasing*
6	Dart Group Corp. *Landover, Maryland*	151.6	902.2	NA	NA	*Auto parts and book retailer*
7	Hadson Corp. *Oklahoma City*	147.7	699.6	NM	-34.9	*Oil, natural gas*
8	Medco Containment Services, Inc. *Fair Lawn, New Jersey*	145.4	850.4	NM	-10.1	*Mail-order pharmacy*
9	Vishay Intertechnology, Inc. *Malvern, Pennsylvania*	127.0	415.6	25.0	17.8	*Electrical parts*
10	Computer Assoc. Int'l. Inc. *Garden City, New York*	125.9	1,243.8	153.2	145.9	*Computer software*
11	3Com Corp. *Santa Clara, California*	121.2	414.0	49.6	21.4	*Computer networks*
12	Costco Wholesale Corporation *Kirkland, Washington*	111.0	3,536.0	NM	37.7	*Warehouse outlets*
13	Safeguard Scientifics, Inc. *King of Prussia, Pennsylvania*	110.4	383.5	23.6	7.25	*Venture capital*
14	Town & Country Corp. *Chelsea, Massachusetts*	108.3	424.6	-2.0	3.8	*Jewelry*
15	Sequa Corp. *New York*	100.0	1,959.1	899.6	60.5	*Jet engine parts*
16	Maxtor Corp. *San Jose*	99.2	447.2	21.9	13.9	*Computer disk drives*
17	Anacomp, Inc. *Indianapolis*	98.8	641.0	3.4	8.7	*Micrographic systems*
18	Reebok International Ltd. *Canton, Massachusetts*	98.7	1,822.1	69.8	175.0	*Athletic shoes*
19	Seagate Technology *Scotts Valley, California*	98.4	1,797.0	220.8	104.7	*Computer disk drives*
20	Microsoft Corp. *Redmond, Washington*	97.2	952.8	114.9	210.5	*Computer software*

Most figures for period ended Dec. 1989. Others for periods ended between Sept. 1989 and Feb. 1990. NM, not meaningful (company moved from loss to a profit, for example). NA, not available.

Rank	Company	Average Annual Sales Growth	1989 Sales (in millions)	Average Annual Profits Growth	1989 Profits (in millions)	Industry
21	Compaq Computer Corp. *Houston*	94.2%	$2,876.1	230.6%	$333.3	*Personal computers*
22	The Computer Factory Inc. *Elmsford, New York*	93.0	392.3	-5.5	1.2	*Computer retailer*
23	Best Buy Co., Inc. *Minneapolis*	87.0	529.5	-0.3	3.2	*Retailing*
24	The Penn Traffic Co. *Johnstown, Pennsylvania*	86.5	2,717.9	NM	-32.0	*Food distribution*
25	Tele-Communications Inc. *Denver*	84.8	3,026.0	NM	-257.0	*Cable TV systems, programming*
26	XL/Datacomp, Inc. *Hinsdale, Illinois*	82.4	365.6	67.2	22.3	*Computer distributor*
27	The Marcade Group, Inc. *New York*	81.5	354.2	NM	8.1	*Clothing*
28	M.A. Hanna Co. *Cleveland*	80.1	1,109.7	NM	86.9	*Specialty chemicals*
29	International Controls Corp. *Kalamazoo, Michigan*	77.4	698.3	NM	-8.0	*Auto parts, truck trailers*
30	Capital Cities/ABC, Inc. *New York*	77.1	4,957.4	48.3	485.7	*Broadcasting, newspapers*
31	Comcast Corp. *Philadelphia*	75.9	562.3	NM	-148.7	*Cable TV*
32	Banner Industries, Inc. *Beachwood, Ohio*	75.1	630.6	NM	-2.1	*Aerospace, industrial manufacturer*
33	Interface, Inc. *La Grange, California*	74.3	581.8	41.2	24.5	*Carpet tiles*
34	Genentech, Inc. *South San Francisco, California*	73.9	383.2	136.8	44.0	*Biotechnology*
35	Doskocil Companies, Inc. *Hutchinson, Kansas*	73.4	485.9	-0.5	2.8	*Meat products*
36	International Lease Finance Corp. *Beverly Hills*	67.0	343.1	55.7	71.8	*Aircraft leasing*
37	Ames Department Stores, Inc. *Rocky Hill, Connecticut*	66.8	5,134.1	-19.9	0.2	*Discount retailer*
38	CUC International Inc. *Stamford, Connecticut*	66.8	365.5	37.1	8.1	*Home shopping*
39	Stone Container Corp. *Chicago*	66.7	5,329.6	1,492.9	285.8	*Packaging*
40	Waxman Industries, Inc. *Bedford Heights, Ohio*	66.2	372.9	49.1	8.0	*Plumbing, electrical supplies*
41	Stratus Computer, Inc. *Marlborough, Massachusetts*	65.2	341.3	62.2	35.4	*Paired computers*
42	Western Digital Corp. *Irvine, California*	62.6	976.5	NM	14.7	*Semiconductors*
43	America West Airlines, Inc. *Phoenix, Arizona*	62.3	993.4	21.8	12.8	*Airlines*
44	Executone Information Systems, Inc. *Darien, Connecticut*	60.6	287.5	NM	-0.6	*Communications equipment*
45	Lewis Galoob Toys, Inc. *South San Francisco, California*	59.6	227.7	3,301.2	19.6	*Toys*
46	Jacobs Engineering Group Inc. *Pasadena, California*	58.9	839.8	87.9	11.5	*Construction*
47	The Home Depot, Inc. *Atlanta*	58.7	2,758.5	252.4	111.9	*Building materials retailer*
48	Kaufman & Broad Home Corp. *Los Angeles*	58.5	1,401.5	50.6	83.2	*Home building*
49	LSI Logic Corp. *Milpitas, California*	58.1	546.9	NM	-24.9	*Integrated circuits*
50	J.B. Hunt Transport Services, Inc. *Lowell, Arkansas*	57.5	509.3	17.5	30.6	*Trucking*
51	Harnischfeger Industries, Inc. *Brookfield, Wisconsin*	56.6	1,583.6	36.4	59.3	*Mining, paper machinery*
52	Businessland, Inc. *San Jose*	54.5	1,306.7	103.7	17.9	*Computer workstation distributor*
53	King World Productions, Inc. *Short Hills, New Jersey*	53.4	428.3	82.6	78.3	*TV program distributor*
54	VLSI Technology, Inc. *San Jose*	53.3	288.5	612.5	0.5	*Integrated circuits*
55	Illinois Tool Works Inc. *Chicago*	52.9	2,172.7	83.9	163.8	*Industrial parts and systems*
56	EnviroSource, Inc. *Stamford, Connecticut*	52.1	246.8	NM	-29.8	*Waste handling*
57	ISS International Service System, Inc. *New York*	51.9	493.6	NM	4.1	*Maintenance services*
58	Century Communications *New Canaan, Connecticut*	51.7	207.6	NM	-56.3	*Cable TV, cellular phones*
59	Tonka Cor *Minnetonka, Minnesota*	51.2	870.5	-12.1	7.7	*Toys and games*
60	USAir Group Inc. *Arlington, Virginia*	50.8	6,251.6	NM	-63.2	*Airlines*

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Rank	Company	Average Annual Sales Growth	1989 Sales (in millions)	Average Annual Profits Growth	1989 Profits (in millions)	Industry
61	FEDDERS CORP. *Peapack, New Jersey*	50.8%	$367.6	146.4%	$22.1	*Room air conditioners*
62	SUDBURY, INC. *Cleveland*	50.7	512.5	NM	-6.4	*Industrial parts, lubricants*
63	MGM/UA COMMUNICATIONS CO. *Beverly Hills*	49.6	917.7	NM	-38.8	*Movies, TV programs*
64	TEXAS AIR CORP. *Houston*	48.8	6,684.9	NM	-885.6	*Airlines*
65	HUDSON FOODS, INC. *Rogers, Arizona*	47.7	633.8	21.7	21.3	*Food products*
66	APPLIED MATERIALS, INC. *Santa Clara*	46.7	534.0	146.1	49.1	*Computer-chip equipment*
67	PHILIP MORRIS COMPANIES INC. *New York*	46.6	40,439.0	26.9	2,946.0	*Consumer products*
68	APL CORP. *Miami Beach, Florida*	46.5	889.6	NM	-33.8	*Plastic, aluminum products*
69	CHILI'S, INC. *Dallas*	45.9	313.6	52.0	16.5	*Restaurants*
70	SALANT CORP. *New York*	45.0	469.6	NM	-9.3	*Clothing*
71	TYCO LABORATORIES, INC. *Exeter, New Hampshire*	45.0	2,100.1	52.6	104.7	*Fire-protection systems*
72	MICROPOLIS CORP. *Chatsworth, California*	44.8	307.3	NM	-49.8	*Computer disk drives*
73	VIACOM INC. *Dedham, Massachusetts*	44.7	1,436.2	50.8	131.1	*TV programming*
74	NEWELL CO. *Freeport, Illinois*	44.2	1,122.9	70.6	85.4	*Housewares, hardware items*
75	FURON CO. *Laguna Niguel, California*	43.9	332.3	16.9	10.3	*Polymer products*
76	BAXTER INTERNATIONAL INC. *Deerfield, Illinois*	43.0	7,399.0	55.6	446.0	*Hospital supplies*
77	CIRCUIT CITY STORES, INC. *Richmond, Virginia*	42.8	1,969.0	55.4	72.4	*Electronics retailer*
78	MARION MERRELL DOW INC. *Kansas City, Missouri*	42.7	1,077.8	0.0	46.3	*Pharmaceuticals*
79	WYSE TECHNOLOGY, INC. *San Jose*	41.8	449.1	NM	-21.2	*Computers*
80	J.P. INDUSTRIES INC. *Ann Arbor, Michigan*	41.2	408.0	18.8	12.4	*Engine parts*
81	ANTHEM ELECTRONICS, INC. *San Jose*	41.2	319.0	80.4	15.8	*Electronics distributor*
	WAL-MART STORES, INC. *Bentonville, Arkansas*	41.1	25,810.6	45.7	1,075.9	*Discount retailer*
83	PHELPS DODGE CORP. *Phoenix*	40.9	2,699.6	262.5	267.0	*Copper*
84	PLY GEM INDUSTRIES, INC. *New York*	40.9	506.8	28.4	10.1	*Home-improvement products*
85	NATIONAL INTERGROUP, INC. *Pittsburgh*	40.9	3,008.5	NM	-2.6	*Wholesale pharmaceuticals*
86	REGAL-BELOIT CORP. *South Beloit, Illinois*	40.4	167.4	47.7	11.5	*Tools, power transmissions*
87	UTILICORP UNITED, INC. *Kansas City, Missouri*	40.2	731.9	16.0	48.3	*Gas and electric utility*
88	TURNER BROADCASTING SYSTEM, INC. *Atlanta*	40.1	1,058.6	11.9	27.6	*Cable TV programming*
89	EXCEL INDUSTRIES, INC. *Elkhart, Indiana*	40.1	277.1	36.2	7.62	*Vehicle windows*
90	UDC-UNIVERSAL DEVELOPMENT L.P *Tempe, Arizona*	39.2	417.2	31.2	51.4	*Home building*
91	ICN PHARMACEUTICALS, INC. *Costa Mesa, California*	39.1	185.5	NM	-86.7	*Biomedical, pharmaceutical*
92	STONERIDGE RESOURCES, INC. *Bloomfield Hills, Michigan*	39.0	156.8	NM	-6.1	*Natural resources*
93	EXPEDITORS INTERNATIONAL OF WASHINGTON, INC. *Seattle*	38.6	193.6	43.9	9.2	*Freight forwarding*
94	PANSOPHIC SYSTEMS, INC. *Lisle, Illinois*	38.1	232.0	9.0	19.8	*Computer software*
95	ARCHIVE CORP. *Costa Mesa, California*	37.1	192.5	133.9	15.6	*Computer tape drives*
96	THE RYLAND GROUP, INC. *Columbia, Maryland*	36.4	1,402.1	35.0	44.0	*Home building*
97	AST RESEARCH, INC. *Irvine, California*	36.4	482.0	-12.2	11.4	*Personal computers*
98	TRAK AUTO *Landover, Massachusetts*	36.3	275.8	NA	NA	*Retail auto parts*
99	MASCO INDUSTRIES, INC. *Taylor, Michigan*	36.3	1,686.6	301.4	46.6	*Power train automotive parts*
100	NATIONAL PIZZA CO. *Pittsburg, Kansas*	35.9	170.5	30.0	13.4	*Fast-food franchises*

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THE MAGAZINE OF CORPORATE MANAGEMENT

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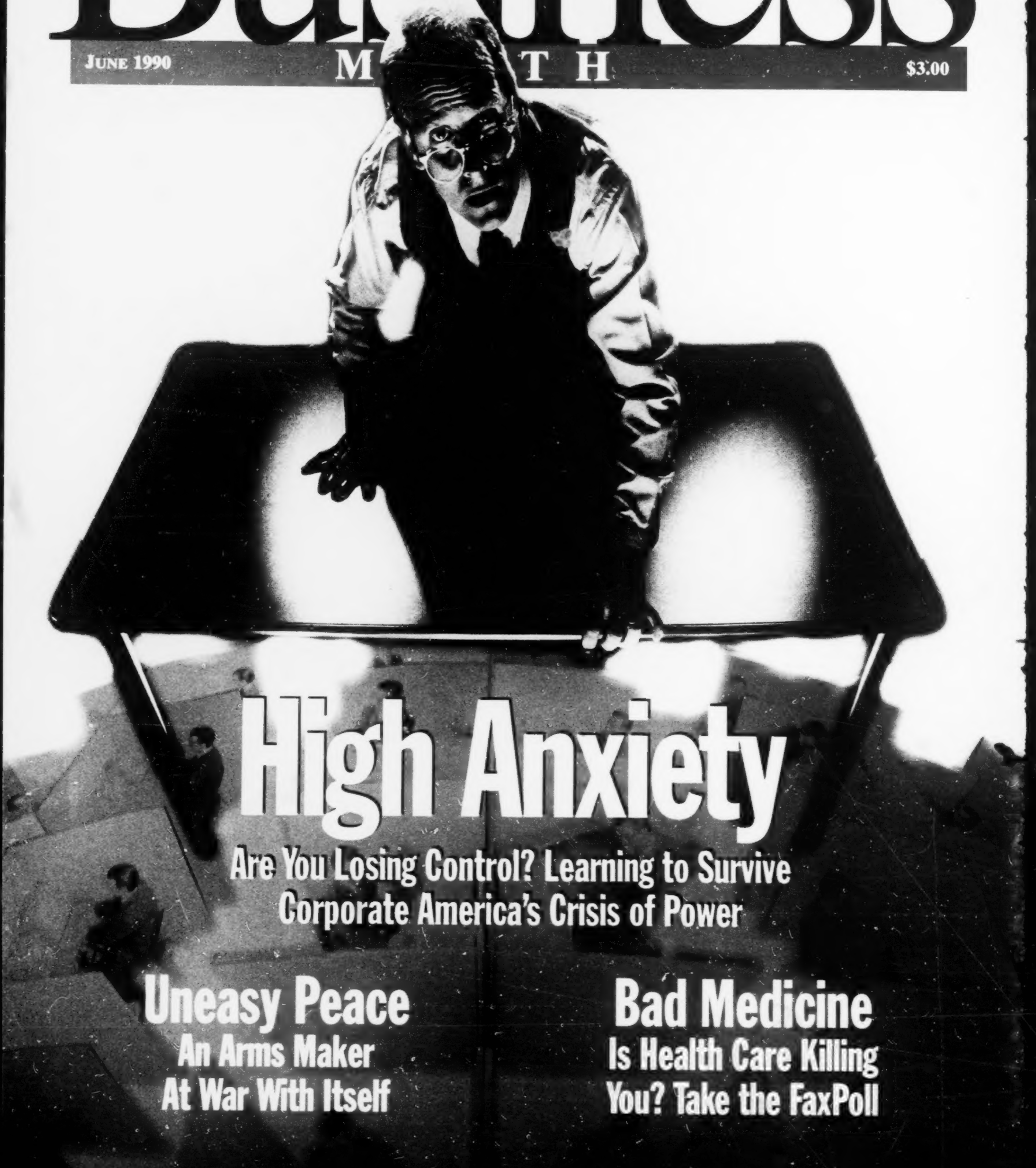

High Anxiety

Are You Losing Control? Learning to Survive Corporate America's Crisis of Power

Uneasy Peace

An Arms Maker At War With Itself

Bad Medicine

Is Health Care Killing You? Take the FaxPoll

Business MONTH

JUNE 1990

MICHAEL LLEWELLYN

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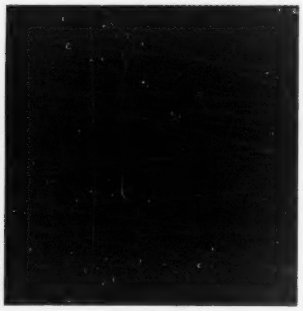
LARRY FINK

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Cover Photograph:
Michael Llewellyn

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High Anxiety

Are you really still in charge? Subordinates now make decisions that were once yours and constantly challenge your authority. There's a crisis of power in corporate America. Managers must adapt or risk losing control forever. *By Patrick Houston*

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Night Stalker

Hey, Culligan Man! Years ago that was the cry when your water smelled foul. Today, Culligan Man Frank Barnaba is cleaning up a more devastating mess—child prostitution. *By Mark Stuart Gill*

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MBAs—Who Needs 'Em?

MBAs now want to fight for industry again. Question: After persevering without them for years, do you really want them now? *By Richard Blow*

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Thou Shalt Create

In the brave new world of biotechnology, it's bottom-line time. And that's putting profit-oriented managers at odds with research-driven scientists. *By Sandra Salmans*

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Sticking to Its Guns

Your biggest customer no longer wants what you make. What do you do? If you're General Dynamics, you don't even consider retreating. *By Michael Kelly*

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Psst. Wanna buy a license to pollute?

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Multiple-pay scales often mean multiple problems

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One man's quest to restore more than a historic site

FAXPOLL/80
Is health care killing your company? Tell us what you think

SpeakOut

GENDER CLASH

THE ANSWER TO YOUR FIRST HEADLINE ON your April 1990 cover, "Women on the CEO Track—Why the Best and Brightest Have Given Up the Race," can be found in your second headline, directly underneath: "FaxPoll: Are You a Ladies' Man?" It's hopeless. You guys have no command of the obvious.

ROSANNE M. CAHN
First Boston Corporation
New York

GETTING IT RIGHT

BY DESIGN OR EDITORIAL COINCIDENCE, your April issue seemed to focus particularly on corporate relationships: company and employees, company and directors, company and key external audiences.

You, your editorial staff, and your writers did a very good job and, at the same time, perhaps found a niche that will differentiate BUSINESS MONTH more effectively from other business media. My view is that corporate governance and the company-employee relationship will be among the key issues of the 1990s.

Good luck as you further refine the "new" magazine. BUSINESS MONTH is definitely much better.

LAWRENCE R. TAVCAR
Stamford, Connecticut

BONDS OF RESPECT

JOHN SCHWARTZ COULDN'T BE MORE ON target than when he advocates a continuing dialogue between CEOs and Wall Street ("The Delicate Art of Wooing Wall Street," CEO's Journal, April).

The absolutely worst time to try and establish communications with the financial community is when your company is in the grip of a crisis. That makes it all the more regrettable that Schwartz relegates mention of Compaq's bondholders to a few subordinate paragraphs.

If anything, the situation should be the other way around. It is the bondholders who have a senior claim on the company and its assets. Specifics of Compaq's situation aside, if there is any group in the investment community with which a CEO (or CFO) should keep in close touch, it is the owners of a company's debt instruments.

Their concerns differ from those of stock analysts—for example, credit quality is far more important than quarterly-earnings forecasts—but the need for dialogue with bond analysts and investors is equally vital.

DAVID H. KOGUT
Senior vice president
GCI Corporate & Financial
New York

BILL BUSTING

THE TONE OF BEN STEIN'S "BILL OF Rights" sounds like one belonging to an indignant autocrat who believes that people should stay in their places and do as they are told. Its sarcastic and patronizing wording portrays a typically American management response to a frustrated work force—a work force that has, in many ways, been abused by a historically clumsy, ego-driven management style.

The bill may be the author's response to a caste system he and thousands of others like him helped to create. The old philosophy that loyalty may be demanded and need not be inspired is archaic, and—read my lips—it is not working!

JERRY R. GRADY
Whitehall, Michigan

A TESTING TESTIMONIAL

HAVING JUST READ "YOU SAID YES" (March), I thought you might be interested to know that our company, Southeast Paper Manufacturing Company, has successfully implemented a comprehensive drug-testing program throughout its organization.

New employees undergo testing prior to beginning work; in addition, all 600-plus employees, from the president on down, are subject to random testing, as well as testing for cause, as the situations dictate. Anyone testing positive is allowed to enter a rehabilitation program; afterward, a repeat positive results in termination. This program has proved to be successful in providing a drug-free work environment.

FRANK P. NEWMAN
Operational services manager
Southeast Paper Manufacturing Company
Dublin, Georgia

Address letters to Letters Editor, BUSINESS MONTH, *488 Madison Avenue, New York, NY 10022. Or fax 1-800-766-7655. All letters must include the writer's name, address, and telephone number.*

Wakin

Where have all the chauvinists gone? You know, the bosses who thought a woman's place at the office was in the steno pool. Hav they really wised up? Most of you say there are too few women in management and that competence has nothin at all to do with gende

NO PROBLEM, 86% of you say. The two main reasons most of you would work for a woman? 1) Quality leadership looks the same in a skirt or trousers; 2) good past experience. Many write that women are better communicators and fairer managers than men. "She may be more likely than a man to empathize with her people striving to get ahead," one of you points out. For another reader, it's all a matter of upbringing: "I was able to respond to my mother reasonably well." Thirteen percent express qualms about serving a woman boss, including a handful of female subscribers: "Most senior women still have a chip on their shoulders about being female, and I wouldn't want to work for them."

Up to Women

PITIFULLY SMALL is how 64% of you characterize the number of women in upper management; 27% describe it as about right; and 9% insist it's more than adequate. But even some supporters caution against relying on quotas to fill the gap: "Many companies are falling prey to 'The Skirt Syndrome'—promoting women who are undeserving just to raise the number of women in management. What harm does this do to morale and people's attitude toward women?"

BEHAVE LIKE A MAN? Hell no! clamor 74% of you. "Some *male* managers should behave more like *women*," one reader writes. "Behavior isn't the criterion; performance is," says another. Not all of the 24% who think women should behave more like men are being sexist: "Assimilation is a tool to break the barrier from middle to upper management." "They need to shed the stereotype of being 'soft,' indecisive, and too emotional."

FaxPoll™

ARE YOU A LADIES' MAN?

1. The number of women in upper management is:
2. Women are doing well enough in the workplace that they no longer need laws to protect them.
3. Do women need to behave more like men to get ahead?
4. During a job interview, you should have the right to ask a woman questions about:
5. Should women who work fewer hours because of family responsibilities be willing to accept a slower career track?
6. Would you have serious qualms about working for a woman boss?
7. The main reason women haven't risen to the top of more corporations is:

IT SHOULD BE OKAY TO ASK A WOMAN ABOUT:

91%
CAREER AMBITIONS

34%
MARITAL STATUS

31%
PLANS TO HAVE CHILDREN

36%
CHILD-CARE ARRANGEMENTS

6%
NONE OF THESE

55% think women still need laws to protect them

A SLOW TRACK is fair for a woman who works less in order to take care of her family, say a resounding 77% of you. But many readers hasten to add in the poll's margins that the same rule should apply to men who make similar sacrifices.

DISCRIMINATION holds women back most, 32% of you say. Others blame it on women's inclination to put family first (12%) or their lack of management skills (12%). And 43% offer a grab bag of answers. Among them: "It's the world's inability to psychologically accept women in positions of power in traditionally male-dominated industries."

MAY FEEDBACK PREVIEW

DOWN, BUT NOT OUT

Wall Street *has* whipped some of you. In early returns to May's FaxPoll, 34% of you complain that the buyout binge has left your company increasingly distracted. Eighty percent think Drexel got what it deserved. How will tomorrow's CEOs spend most of their time? And who will keep them on their toes? We'll tell you next month. Until then, doesn't it make you sick? Your health-care plan, that is. Turn to page 80.

ing more important. It's already taking over some of the penchant for organized sports. We recruit people from all over the United States. They don't necessarily want to go into New York to have a cultural experience." That's where Waterloo Village comes in.

Once the ancient burial ground for the Munsee tribe and a supplier of iron to the Continental Army, the village thrived in the 1830s as a major lock stop along the barge canal that cut across New Jersey and served as the gateway to commercial development in the West. Waterloo grew with the increased volume of transported goods—coal, iron ore, grain, wood, bricks, and lumber—surviving the early days of the iron horse. But after the Sussex Railroad bypassed the village in 1901, Waterloo fell on hard times.

> *The promise of the good life has lured executives from as far away as California.*

Caspersen has more than a passing historical interest in the place; the land on which Waterloo Village sits once belonged to his family. His father—O.W. (Olaus Westby) Caspersen, a former president and chairman of Beneficial—picked up the property after the stock market crash and, following World War II, was all set to develop it into a large residential community. That's when Percival H.E. Leach, a designer and amateur historian, pleaded with the elder Caspersen to spare the place and consider donating it to the state as a historic site. Caspersen not only relented, he also gave Leach his first job—redesigning the interior of Beneficial's corporate headquarters. Says Leach, who went on to become the chief architect of Waterloo's rebuilding, "We took the proceeds from that job, and from subsequent jobs, and put them into the restoration."

Most of that rebuilding took place while the younger Caspersen was attending college and law school. But once he was named chairman of the Waterloo Foundation in 1978, Caspersen was forced into an active role. "Waterloo was having serious financial problems," he recalls. "The 17 and 18 percent interest rates on too much debt were killing it. So I assembled and headed a financial consortium of five New Jersey banks that bailed it out."

From then on, there was no getting rid of him. Between early morning telephone calls, trips to Trenton (the state's capital) to lobby for funding, and quiet lunches with Leach, Caspersen puts in several hours a week on behalf of Waterloo. He talks constantly about the village as though it were *his* place. "We're hoping to build a real inclined plane along the barge canal," he rhapsodizes. "That will show visitors working examples of the old engineering techniques that allowed barges to be pulled up 70 to 80 feet."

For the last decade, the fates of Beneficial and Waterloo have been nearly inseparable. Caspersen not only earmarks charitable contributions but also calls on his own people to pitch in. "We lend our infrastructure," he says, "helping with the printing of brochures, using our legal staff for various jobs. We really can make a difference, with very little cost to our shareholders."

But how good a magnet is Waterloo when it comes to drawing top-notch talent to Beneficial? "We've had no difficulty getting company people to transfer here from California—that's traditionally been a very difficult thing to accomplish," Caspersen declares. "We've also had very good luck with outsiders, especially with women managers. They come here, see how safe and pleasant the surroundings are, and they can't resist." ■

James L. Shepherd is the former news director at Financial News Network.

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Foods that may help reduce the risk of gastrointestinal and respiratory tract cancer are cabbage, broccoli, brussels sprouts, kohlrabi, cauliflower.

Fruits, vegetables and whole-grain cereals such as oatmeal, bran and wheat may help lower the risk of colorectal cancer.

Foods high in fats, salt- or nitrite-cured foods such as ham, and fish and types of sausages smoked by traditional methods should be eaten in moderation.

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Business MONTH

JULY 1990

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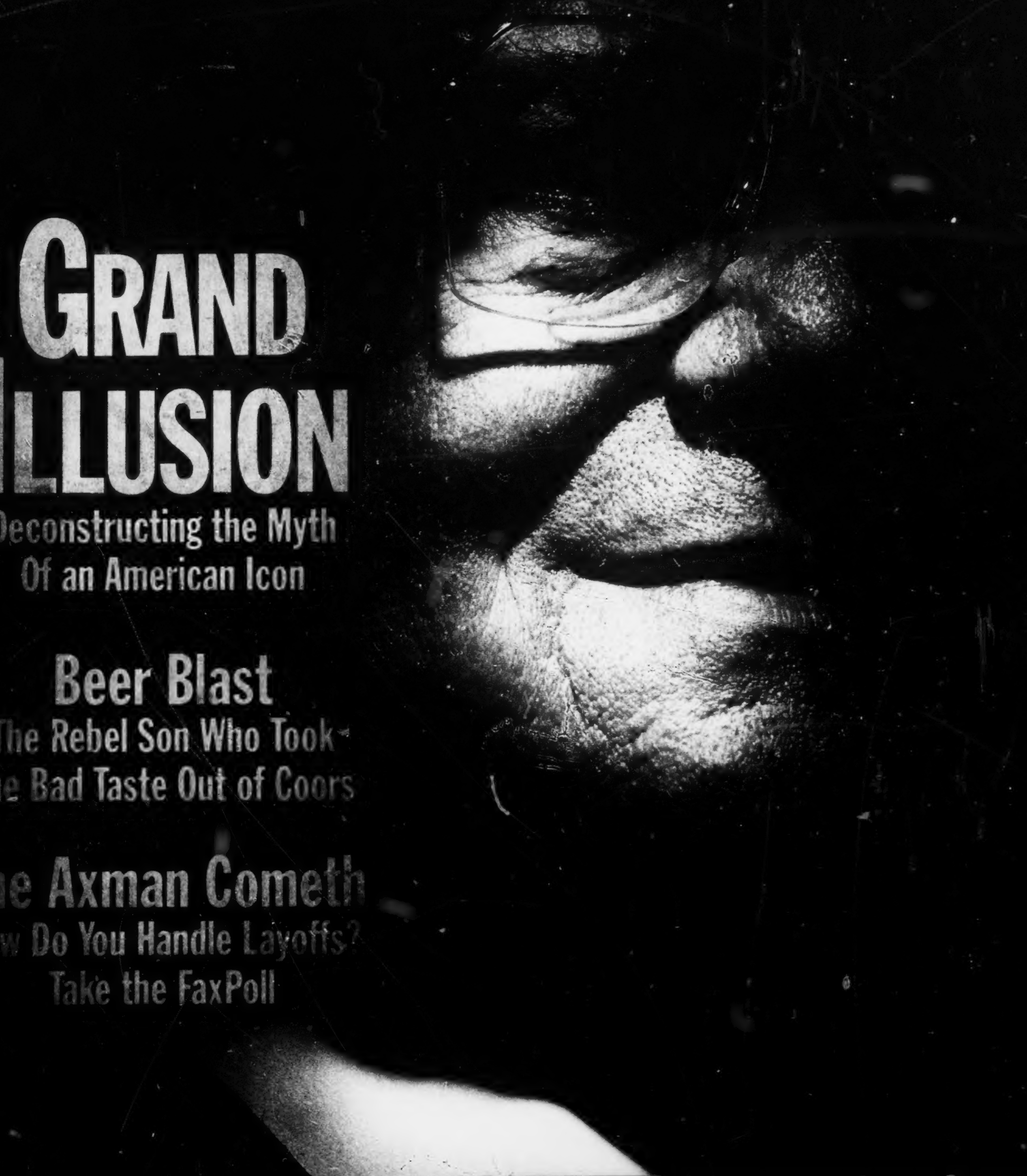

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Myth vs. Manager

Lee Iacocca's rescue of Chrysler in the early 1980s made him an American hero. But his inattention to fundamentals has brought the company back to the brink of ruin. Can the super salesman once again salvage Chrysler—and his reputation? *By John B. Judis*

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Over the Hill and Back Again

Downsizing shoved many middle managers into early retirement. But corporate America may soon need them back. Will they come? *By Barbara Burgower*

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Dubious Achievement?

This year, nearly 100 companies will each spend up to $1 million competing for a 14-inch hunk of glass—the annual Malcolm Baldrige National Quality Award. In their zeal, they're missing the point. *By Patrick Houston*

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The New Face of Coors

A scion of the legendary *Braumeister* Adolph Coors is struggling to make the brewery a world-class contender. But Peter Coors must first overcome an insidious force—his own kin. *By Alex Prud'homme*

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Excessive Claims

Companies seek a simple cure for health-care inflation. They won't find it. The forces at work are powerful, and solutions will take guts. *By Susan Dentzer*

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Why smart managers make dumb decisions

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An oilman's personal contribution to the arts

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Are you a hatchet man? Tell us what you think

In Japan, for example, there is a very high social tolerance toward alcohol and tobacco, and any negative economic consequences have yet to be identified. On the other hand, many third-world countries have much stricter attitudes to the use of any types of drugs (including alcohol), and their economic successes leave a lot to be desired.

The Netherlands share many similarities with the United States, and drugs have been freely and openly for sale there since 1985. Yet there are no gangs, there actually has been a drop in addiction to all types of drugs, there are no cocaine-related deaths, and in 1987 there were only 64 deaths from heroin, compared with 2,000 from alcohol and 18,000 from cigarettes.

Also, this past February, the Drug Policy Foundation released the results of a nationwide survey in which less than 1 percent of those surveyed who had not used cocaine said they would be "at all likely to try it" if cocaine were legal, and only 4.2 percent would be at all likely to try marijuana. That is a pretty far cry from the 20 percent rate of cocaine-addicted Americans Wilson predicts.

Finally, "legalizing drugs" does not mean allowing their commercialization, promotion, and marketing. Basically what is being advocated is a system of "controlled toleration" of the private use of drugs subject to the same legal responsibilities as are enforced for alcohol and tobacco.

WALTER BENDA
Eagan, Minnesota

THE EMPIRE STRIKES OUT

I CONGRATULATE BEN STEIN ON THE thoughtful presentation "Decline of the American Empire" (The Issue, May). It is one of the fact-packed articles that must be read. Once you start it, there is no stopping until, in shock, you come to the end. What Stein is saying is pretty much along the lines of my own philosophy: Republican and conservative.

TALMADGE HEFLIN
House of Representatives
State of Texas
Austin

SAFE PSYCH

"ARE YOU ASKING FOR TROUBLE?" (SpeakOut, April) raises some legitimate issues regarding psychological testing: concerns over privacy and disparate impact. However, the authors fail to recognize that these issues also apply to other screening tools that have come under greater attack for alleged privacy invasion and discrimination.

The authors state that "it's reasonable to expect that a job applicant who failed the [psychological] test might sue, claiming violation of his privacy." There has never been an invasion-of-privacy suit won based on psychological test use. In the instance of the most common preemployment test, the integrity test, no such complaints have even been filed.

Another unsubstantiated assertion is that "research may unearth evidence that psychological tests have disparate impact." To the contrary, few selection techniques can match the sheer volume of evidence demonstrating such tests' lack of disparate impact. For these reasons, and contrary to the essay's assertions, psychological testing is emerging as the employer's safest harbor.

DAVID W. ARNOLD
General counsel
Reid Psychological Systems
Chicago

THE KIDS ARE ALL RIGHT

Ben Stein's fable (Opinion, January) cautioning America's youth not to ignore the lessons of their past, which include the benefits of hard work and a good education, was reprinted in the May Reader's Digest *and again drew fire.*

I AM A MODERN TEENAGE BOY. I DRIVE A sports car, wear my hair long, and enjoy swapping jokes with my friends. But I also am capable of discussing dadaism or Nietzsche. I was not forced to learn; rather, I am self-motivated enough to want to learn on my own.

For every lazy teen, there is an aspiring and intelligent one. Some have family trees in America longer than my arm; others are foreign-born. But we all live in the same nation, and we all are interested in seeing its continued survival.

BRIAN ROSE
Houston

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Torn by

No issue has so deeply divided our readers. Half of you, mainly senior executives, claim that merger mania left you feeling stronger and more self-assured. Lower-ranking managers—call them the walking wounded—seem dazed, powerless, and angry.

LAZY EXECUTIVES in the 1990s? No, clamor 77% of our readers. Why? Listen to various department managers: "They'll be too busy soothing disgruntled employees"; "The poor economy will be enemy enough"; "They have to pay off LBO debt or fail." Survivors think foreign competitors will keep sloth out of the executive suite; the walking wounded fear acquirers closer to home.

Takeovers

THREATS BY RAIDERS made your company more competitive, insist 33% of you. But 32% grouse that raiders distracted management from more purposeful matters—presumably, watching the markets and making quality products. Survivors are more sympathetic to Drexel, and to buyouts generally, because they make their companies more responsive to shareholders. The walking wounded believe Drexel got off too easy and that buyouts are destructive because they enslave managers to short-term goals. A surprising 23% claim fearlessness in the face of takeovers. Reason: Many are beyond terror, because they've already been acquired.

85%

of you think Drexel got what it deserved

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HAS WALL STREET WHIPPED YOU?

- Forced to plead guilty to a felony, then shoved into bankruptcy, Drexel Burnham got what it deserved.
- The fear of being taken over made your company:
- Was the buyout binge of the 1980s really all that bad?
- How do you think tomorrow's CEOs will spend most of their time?
- Without corporate raiders to keep them on their toes, will executives become lazy in the 1990s?
- Who do you think will keep management in line?
- To get things done, today's executive has to rely more on influence and persuasion than on authority and power.

DAMN THE BUYOUT binge, say 69% of you, citing crippling debt and disemboweled businesses. "It destroyed the trust of the American worker forever," complains a senior vice president. Among the 31% who say mergers aren't all that bad is a controller who argues, "I think it has helped force corporations to be efficient."

THE MAIN TASK OF TOMORROW'S BOSSES IS

45%

PLANNING STRATEGY

28%

CONTROLLING PEOPLE AND BUDGETS.

18%

MOTIVATING EMPLOYEES.

PERSUADING is better than browbeating, say 80% of you. One chairman takes strong exception: "A boss is still a boss. The captain of the ship *tells* the crew what to do!"

DISSIDENT shareholders will keep executives honest (25%). Board members place second (22%), with greater support from survivors than from the walking wounded, who may suspect the board is too busy concocting poison pills to look after the company's interests.

JULY PREVIEW: BAD MEDICINE

Yes, you do feel sick about your health-care plan—so hundreds of you are telling us. But you're willing to look beyond the usual culprits: "Everyone shares in the blame, including jurors who award astronomical damages." Should employees be entitled to whatever benefits they need? What's the best way to cure the crisis? We'll have the story next month. Meanwhile, are you a hatchet man? Turn to page 76.

wanted to be an artist—that came later. He wanted to explore and develop oil fields. And he was impatient. He figured he could learn more from his father than he could in the classroom. Initially, the elder Calaway, who wanted his two sons to have university educations, was angry and told John to stay in school. But the boy was a formidably persuasive salesman. His father finally relented and supported his efforts to start a company.

In an ironic twist of fate, Edge opened for business—and prospered—during the toughest times the oil industry had seen in decades, the mid-'80s crash that some Texas oilmen now call the Wreck. "We never slowed down," Calaway says, even though other operators were falling into bankruptcy right and left. Since Edge was new, it was unencumbered by a weighty payroll and high overhead, and Calaway could take advantage of the misfortune of his colleagues. He used rental equipment, then available at a fraction of boom-days rates, and crews happy to get work at wages they would have laughed at a few years earlier. And he spent a lot of money buying up oil and gas leases that other operators were either too broke or too gun-shy to touch.

Now, at 32, Calaway is part of Big Oil's old guard. He spends a sizable part of each day studying the logs that track oil and gas flow from his wells and the computer-generated seismic cross-sections that offer the promise of new ones. The cross-section printouts, which resemble delicate pen-and-ink drawings, hang on the cream-colored walls of his office alongside abstract and sometimes provocative works by local artists—a small fraction of the more than 1,000 original pieces of art, not counting his own, in his collection. No cowboy art or dead-duck paintings here.

For his first five years as a sculptor, Calaway worked in the studio seven days a week, from 5:30 every afternoon until 11:00 during the workweek and all day Saturday and Sunday. Then he got married, and his wife began to resent never seeing him. So they worked out a compromise: He spends two nights a week and all day Saturday at his studio.

If he had to live off his artwork, which ranges in price from $650 for a small painting to $25,000 for a large marble sculpture, he wouldn't starve. But his life-style would be more modest than a successful independent oilman's.

Each profession has become an essential part of the success of the other. "During 1986, at the bottom of the bust, a lot of good people in this business were terribly depressed because we'd all run up against a brick wall, and there was nothing we could do about it," he says. "But I'd go down to my studio and get onto a big piece of stone with my chisel, and all my worries would fall away. The next morning, I'd walk into my office, and people would say, 'How can you be so up?' I was up because I had made progress on my rock."

Most of the time, Calaway is brimming with intensity, so much so that it's daunting to think what he would be like if he didn't have art to bleed off some of the energy from his business life. "I hate to waste time," he says. "Nothing makes me madder than people who waste time." Sculpture and painting loosen him up and keep him mentally flexible, able to react to changing conditions. "In business we have so many rules—with contracts, courts, and SEC regulations everywhere," he says. "As an artist, I like to break all the rules I can.

"When I'm in my studio with a chisel and a piece of rock, it doesn't matter how much money I have. It doesn't matter what I look like. It doesn't matter how persuasive I am," Calaway says. "And yet, it gives me a fulfillment and a confidence I couldn't have otherwise. I think it's saved me, because I wasn't nearly as happy before." ■

Sandy Sheehy is the author of Texas Big Rich *(William Morrow & Company).*

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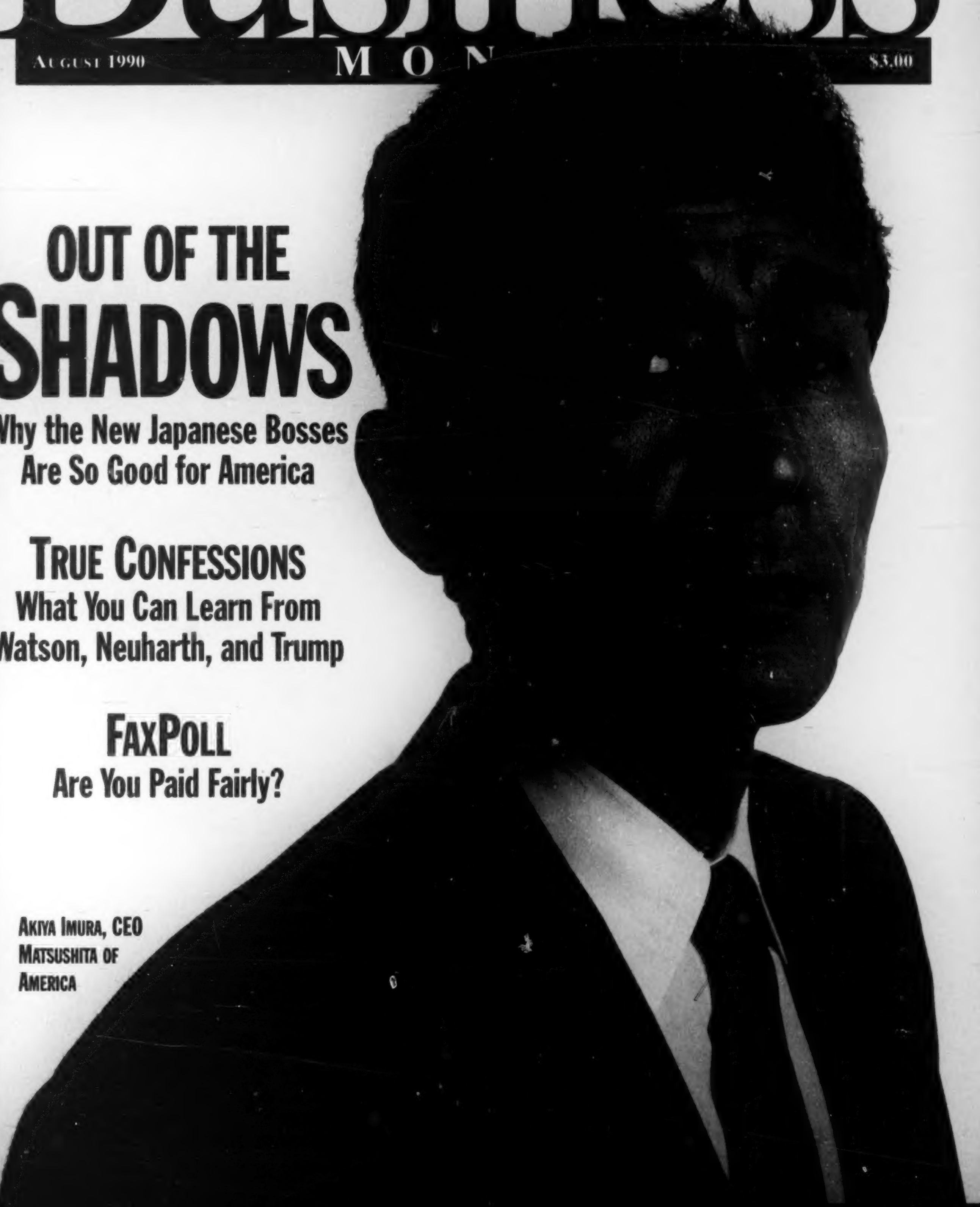

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Japan's Bosses in America

Do you know the men who run Japan's big American subsidiaries? Not likely. They do their jobs masterfully but rarely utter a word. It took un-Americanlike patience, but we interviewed five of the best. What they say may surprise you. *By Bill Powell and Alex Prud'homme*

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Old Friends

Stride Rite has an innovative solution to the elder-care problem: a joint on-site day-care center for the aged and the very young. Too bad more old folks don't show up.
By Barbara Hetzer

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True Confessions

Lee Iacocca and Donald Trump were take-charge types from the womb. But real CEOs are torn by self-doubt. IBM's Tom Watson Jr. tells us why. *By Richard Blow*

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Nice Guys Finish Last

Commerce Secretary Robert Mosbacher is a champion of American business. But he's also a nice guy—and you know what happens to them. *By Morton Kondracke*

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Free Market Harvest

Quick, what part of the world is converting to capitalism overnight? Wrong. The answer we're looking for is Latin America. Check out the prospects. *By Judith Evans*

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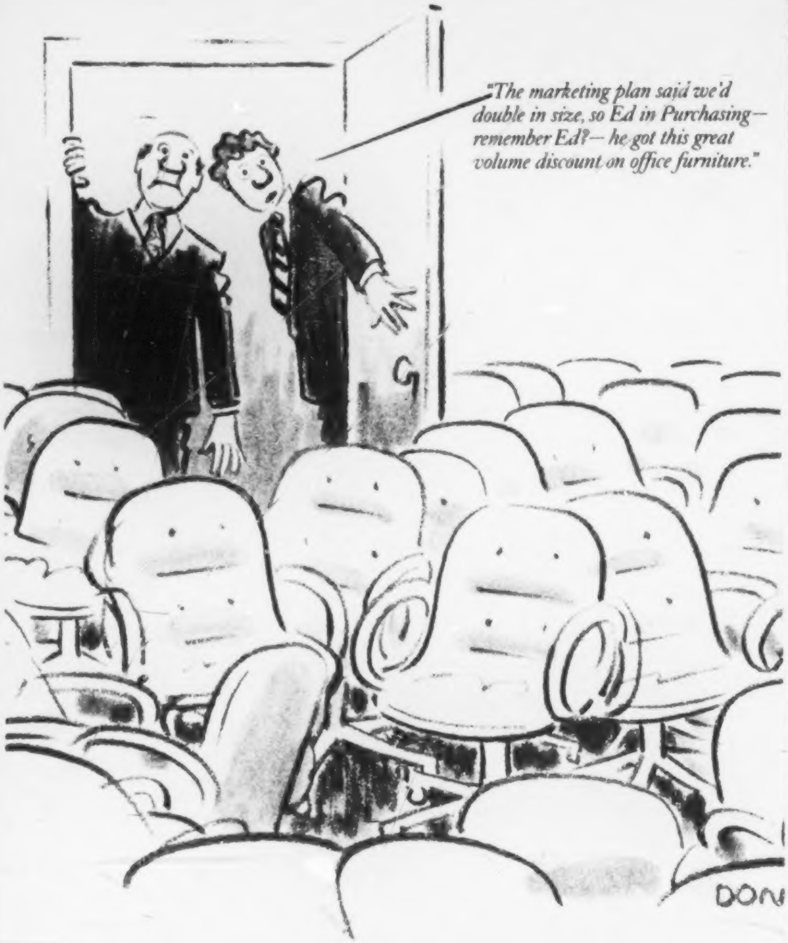
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HAVING GRADUATED FROM A TOP-FIVE business school one year ago, I find it dangerous to make generalizations about a degree that has roughly 66,000 recipients annually. Certainly, there is a high percentage of exceptions to the "fast money/job hopping" depiction in your article.

I would also argue that impatience to stay with companies over the long haul is really a product of the evolution of the business world during the decade of the '80s. Like the companies that they work for, many MBAs have realized that they need to be looking constantly or at least understand all their options at all times. As for the MBAs' tendency to act upon these options more often than other employees, I can only offer two explanations: They may be further along the learning curve in understanding the fragile nature of company-to-employee loyalty; or they may have more options because of their degree. Certainly you can't fault them for the latter.

ROBERT C. JOHNSON
Kellogg, Class of '89
DowBrands, Inc.
Indianapolis

SATISFIED WITH QUALITY?

AS RUSSELL REDENBAUGH'S "BEWARE the God of Quality" (SpeakOut, June) shows, quality for quality's sake is a new icon that could mislead the unwary, wasting millions of dollars in the process. Quality is not how to achieve customer satisfaction but an assessment produced when customers are satisfied. McDonald's may not be French cuisine, but that is not what it promises. McDonald's success indicates that it is unmatched in producing satisfied customers seeking a hamburger, fries, and a Coke. In my book, that makes McDonald's a quality leader in its market.

CHARLES W. KADLEC
Vice president and director of research
J. & W. Seligman & Co.
New York

QUALITY HAS BECOME THE NEW BUZZWORD. What is it? How would you know it? In the clarity of your article, one can begin to see that quality is an assessment, an evaluation made by both the producer and, more important, by the customer. By shifting the focus for the standards of the product or service, a business can concern itself with what actions it can perform or offer that the client will be satisfied with, rather than a "good" product. This terse piece of writing produced satisfaction for me by speaking "my mind" in a way that I didn't know I was thinking until after I read it.

MEL AUSTON
Special project consultant
Discovery Channel
Landover, Maryland

RUSSELL G. REDENBAUGH'S LETTER TYPIFIES the narrow-minded thinking of American business. Customer satisfaction is, of course, the final criterion, but it is not the means of achieving final success. Remember when we sold cars by advertising their length and size? Customers were satisfied, for a while. The philosophy of the Japanese and the Germans does indeed stress quality and over the long term is responsible for their success.

The aircraft industry is still one of the success stories of American business. Do airlines buy American aircraft because they are satisfied? Certainly. But how far would American aircraft manufacturers get if they were not producing high quality and enviable records of reliability?

JOSEPH A. SKALA
Automation systems manager
Grumman Data Systems
Woodbury, New York

REDENBAUGH'S STATEMENT THAT QUALITY and customer satisfaction are "categorically different" comes from limiting the definition of quality to *product* quality. I agree that customer satisfaction should be the end goal of any business, and the most structured method of achieving that goal is through continuous improvement of product *and* service quality. A modern quality program worth its salt gives a business concrete targets to aim for while striving to win the blue ribbon of customer satisfaction.

MICHAEL B. CALHOUN
Director of quality
Otus
Dallas

I WAS BEMUSED BY REDENBAUGH'S STATEMENT that quality and satisfaction "are categorically different." The definition of quality is conformance to require-

---

Rx for

Sick? Enraged is more like it. No one—not even your employees—escapes your fury over the medical crisis. One big surprise is that the free market may not be the ultimate cure: 41 percent of you say the government should underwrite some form of health insurance.

PREVENTION is the best way to cut health-care expenses, say 46% of you. The draconian solutions: Increase employee contributions (39%); eliminate coverage for some procedures (18%). One reader recommends "higher deductions for people who cause their own problems," whom another respondent characterizes as "smokers, drinkers, druggies, and fat asses." An additional 28% of you check off low-cost providers, and 12% employer self-insurance. The most original suggestions: "Pay employees to shop for the best deal"; "Impose an 85% tax on all physicians earning over $250,000"; and "Create a fund to destroy malpractice lawyers."

Disaster

84%

of you say the health-care system is ripping you off.

BLAME MALPRACTICE LAWYERS, clamor 57%. Close behind are physicians, cited by 54%. (Many checked off more than one culprit.) Hospitals (46%), insurers (31%), even employees (18%) aren't any too popular. Curiously, 7% of you accuse the uninsured indigent—many of whom receive no medical attention at all. Perhaps the sanest diagnosis of all was, "Blame the American attitude toward health care: Live the way you want, eat the way you want, develop serious health problems, then throw big bucks at treatments."

FaxPoll™

DOESN'T IT MAKE YOU SICK?

- Is the health-care system ripping off your company?
- Who's mostly to blame for the spiraling cost of health care?
- Employees aren't making prudent—and cost-saving—choices about their own medical care.
- Who should bear the major burden of the cost?
- What should the federal government do?
- What's the best way to cut health-care costs at your company?
- Should all employees be entitled to all the health care they need, regardless of cost?

WHO SHOULD PAY THE COSTS?

49%
SAY THE COMPANY

24%
SAY EMPLOYEES

12%
SAY TAXPAYERS

9%
SAY EMPLOYEES AND THE COMPANY

BAD CHOICES by employees are part of the cost problem, say 55% of you. Respondents at the largest corporations place a lot more trust in their workers not to abuse medical services than do people from small companies. As one reader notes, "When employees are informed and given the opportunity to control their choices, they do it quite well."

LIMIT PAYOUTS on malpractice claims, 57% insist; another 36% urge fixed fees for hospitals and doctors. While 11% of you think Uncle Sam has no place meddling in health care, fully 63% call for some kind of government intervention: regulating insurance company profits (22%), underwriting catastrophic care (21%) and basic coverage (13%), or introducing a form of socialized medicine (7%). "Nationalize the greedy leeches!" one of you declares.

UNLIMITED MEDICAL CARE isn't an employee's right, according to 57% of you. Again, company size plays a role in shaping opinion: Unlike big organizations, smaller outfits don't think their work force deserves every health benefit. "They only need what they can pay for," snarls one dyspeptic reader. "Die if you can't pay."

JULY PREVIEW: READY, AIM, FIRE

Most companies are heavy-handed and cruel when it comes to layoffs, say nearly four out of five early responses to the July poll. You should know: 60% of you say your companies have wielded the ax in the last six months. What's the best way to minimize the damage? How much do you owe to the survivors? We'll have the answers for you in the next issue. Until then, have you been had? Turn to page 80.

HITTING THE WALL AT FORTY • FINANCING GROWTH • FAXPOLL: ARE YOU LOYAL?

SEPTEMBER 1990

MONTH

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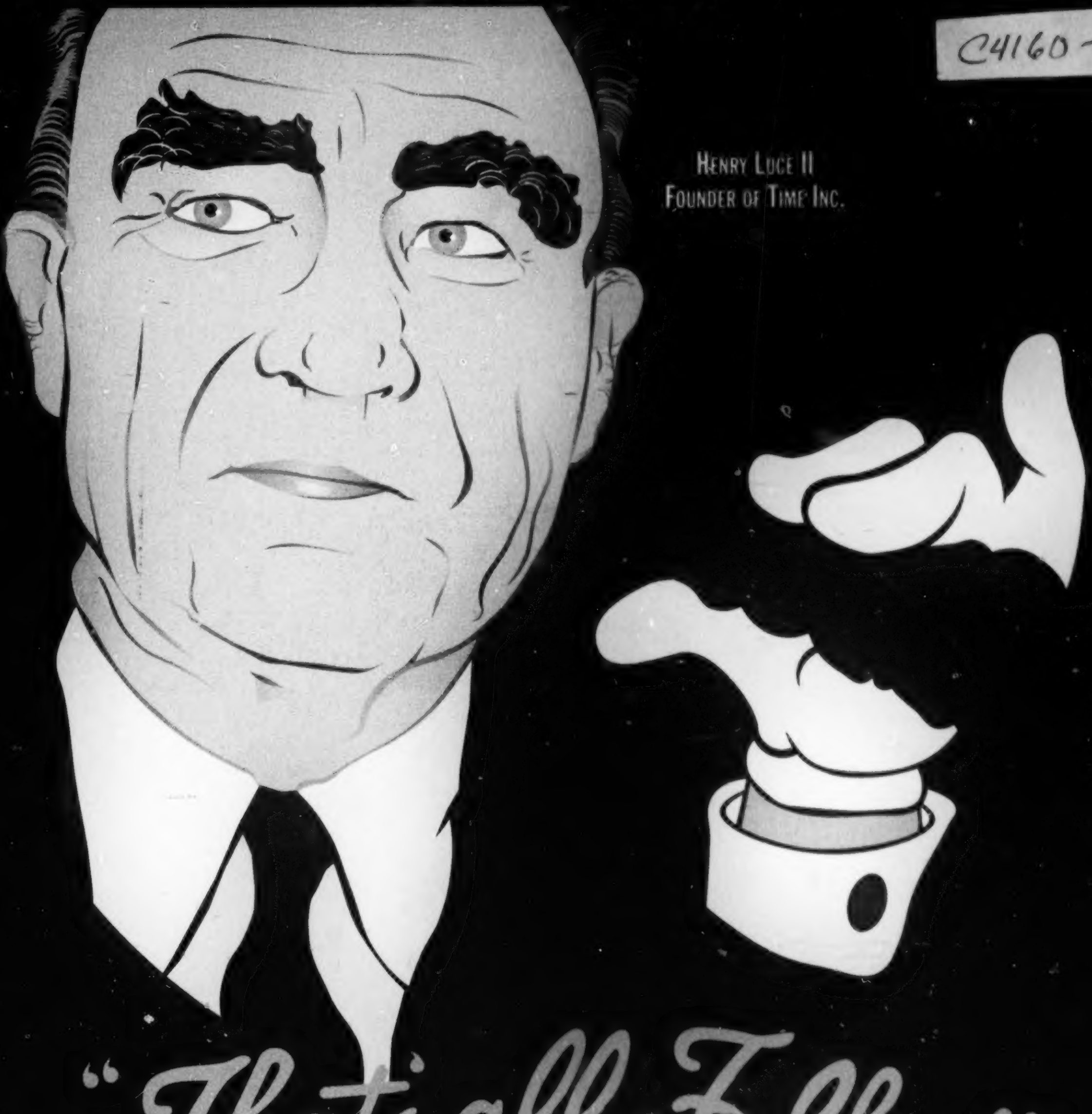
HENRY LUCE II
FOUNDER OF TIME INC.

"That's all Folks!"

From Glory Days to Looney Tunes: Managing Culture Shock at Time Warner

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Time Warp

Time Inc. stood for Henry Luce's moralistic brand of journalism; Warner Bros., for Steve Ross's Hollywood-style deal making. A year after their merger, the two cultures are still distant—but Ross seems to be winning the corporate soul. Poor Henry. *By John Marchese*

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48 Hours on the Job

What does a CEO do? Jerre Stead talks and talks. Listen in on two days of his conversations and on how he makes decisions at Square D. *By Patrick Houston*

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Hitting the Wall at Forty

When Mozart was their age, he was dead. Managers who are at their peak—but who are never going to be president—need special care. *By James Kaplan*

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I Think I Can, I Know I Can

Meet John Robinson, the wacky but ruthlessly down-to-earth head of Harper Group. *By Mark Stuart Gill*

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Financing in the '90s

Junk bonds are dead, but investment bankers and CFOs are cooking up a surprising number of new ways to raise corporate cash. One might be just the ticket for your company. *By Dan Rottenberg*

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Are you a loyal employee?
Plus a FaxPoll extra!

Cover Illustration:
Laurel Daunis

SpeakOut

PATRICK HOUSTON'S CHEAP SHOT AT THE Baldrige award does a serious disservice to the U.S. business community. The Baldrige guidelines are the most useful and inexpensive set of standards for measuring quality performance yet devised in this country, or perhaps anywhere. While it is true that 100,000 copies of the guidelines were given away this year, only 97 companies applied for the award. The majority of the *free* guidelines are used by companies to conduct internal audits of their performance to see where they stand in relation to a very tough set of world-class standards and to initiate improvement projects. This, I would submit, is a great achievement, which will lead to increased competitiveness, not a dubious one.

JERRY G. BOWLES
Publisher
The Quality Executive
New York

THE ENTIRE POINT OF THE BALDRIGE award is the preparation, not the trophy. The opportunity to have an objective third party offer a company feedback on how it is progressing against a set standard offers a company a great deal more than $2,450 (the application fee) could buy in consulting services. The companies who "put on the best show" are not at the right starting gate and perhaps, to use Houston's analogy, should consider signing up for the Rose Bowl instead. On the other hand, the firms that are willing to invest toward excellence in those categories are the same companies I want to do business with, have in my investment portfolio, and work with as clients.

ELIZABETH HAMILTON
Heidrick and Struggles
Boston

I WANT TO COMMEND PATRICK HOUSTON on a fine exposé. The "take us to the top every quarter" corporate executive should think twice about applying for this award. It takes most companies 5 to 10 years to achieve a level worthy of a field visit by award examiners. It should attain automotive or aerospace or military quality-award levels with full statistical-based documentation before applying for the Baldrige award. The latter is a far greater challenge, particularly in the human-resources and leadership areas.

Effective personnel development (not training), team work (not top-down direction), flat organizational concepts, leadership (not managers), and products or services that satisfy customer desires are the qualities that a company needs when pursuing its own greatness.

So companies should set their sights on 1995 to 2000 and build to be award contenders in that period. In the process, they can achieve greatness in their own right, in their own business. That is the best game plan.

GENE TOMLINSON, RPC
Vice chairman, Regional Council for the
Human Resources Division
American Society for Quality Control
Southfield, Michigan

FOR CHRYSLER'S SAKE!

JOHN JUDIS'S "MYTH VS. MANAGER" (The Cover, July) proves once again that Chrysler Corporation and its chairman, Lee Iacocca, are fair game for just about every journalist.

Does Chrysler face difficult times ahead? Absolutely. But was every action we've taken in the past five years misdirected, as Judis indicates? Absolutely not. Is Lee Iacocca the "main man" at Chrysler? Don't ever doubt it. But is he the only one who makes any decisions here? No way. Mr. Iacocca is definitely a strong-willed—albeit mortal—coach, but there are many other talented executives on the team who participate in the decision-making process. Laying total responsibility on Mr. Iacocca for everything bad—or good—that happens at Chrysler is naive.

We acknowledge that not everything we've done during the past several years has worked out as planned. But then, much of what has hit Chrysler, and the rest of the domestic industry, has been out of our control.

As Judis concludes, the final chapter on Mr. Iacocca and Chrysler remains to be written. We fully anticipate a happy ending.

BUD LIEBLER
Vice president, Communications
Chrysler Corporation
Highland Park, Michigan

Address letters to Letters Editor, BUSINESS MONTH, *488 Madison Avenue, New York, NY 10022. Or fax 1-800-766-7655. All letters must include the writer's name, address, and telephone number.*

Lousy

Whack! Heads are rolling across corporate America, and companies seem to be botching the job. You say we need more compassion and better communication. Still, you're not a very sentimental bunch: If you had to wield the ax, only 31 percent of you would spare workers on the basis of seniority.

EXTEND HEALTH BENEFITS for fired workers, say an overwhelming 74%; offer generous severance pay, advise 69%. Other popular exit perks: free outplacement (53%) and psychological counseling (20%). How much severance pay is appropriate? Most of you would link its duration to length of service (e.g., one month per year). Readers at the largest companies have a strong sense of generosity; those at smaller outfits seem more willing to offer longer medical coverage for consolation cash. One subscriber doesn't believe in severance at all, because "it tends to keep people from getting enthused about interviewing." Yup, there's nothing like sitting at home and counting that new, ill-gotten wealth.

at Layoffs

78%
say most companies don't handle termination fairly and sensitively

LAYOFFS ARE LEGION: 59% say their companies have lopped off people in the last six months. That number jumps to 70% among respondents in the largest companies. Reason: Layoffs are becoming a regular fact of life among the *Fortune* 500, a sort of brutal corporate tune-up every few years. The smallest firms can't afford these crash diets—if they're forced to cut the equivalent of a division, they're probably on their way to Chapter 11.

FaxPoll™

ARE YOU A HATCHET MAN?

- Do you think most companies handle the termination process fairly and sensitively?
- Have changed business conditions forced your company into layoffs in the last six months?
- When deciding which people to lay off, you should give special consideration to an employee's:
- What mistake do managers most commonly make?
- Are you proud of the way your company handles layoffs?
- How can companies best minimize the damage to those being laid off?
- Do companies have a special obligation to the survivors?

CALLOUS ATTITUDES are the worst mistakes managers make when laying people off, say 55% of you. Nearly half (49%) believe there's not enough advance warning; 29% point to poor communication, while 16% blame administrative screwups. "Fire the dumb bastards who *caused* the decline," grouses a reader, one of 8% of you who say that cuts victimize the innocent.

WE OWE PLENTY to the survivors, clamor 75% of you. "The company must rebuild the confidence of those who witness the slaughter," writes one of you. To wit: an explanation of what's going on (19%) and reassurance of job security (19%). Readers at smaller companies aren't so sympathetic. "They're lucky to have a job," fumes one subscriber.

WHEN DECIDING WHICH EMPLOYEES TO LAY OFF YOU SHOULD CONSIDER:

85%
SAY PERFORMANCE

31%
SAY SENIORITY

14%
SAY FUNCTIONAL SKILLS

3%
SAY PERSONAL NEEDS

PROUD? NOPE. Not of the way your company handles layoffs, 56% of you admit. Many fault the judgment of those in charge of making the cuts: "We get rid of people at the bottom; the expensive deadwood is still here." Readers from smaller companies are less critical, praising management's attempts to keep employees as long as possible and, in the worst circumstances, separating people quickly and fairly. Layoffs are awful, as one reader reminds us, no matter how sensitively they're handled: "Where does a 55-year-old man who has spent over 30 years with his company find another job?"

August Preview: The Money Pit

Were they simply too embarrassed about their own compensation? CEOs, who flocked to our poll on takeovers, didn't have much to say about executive pay. But hundreds of managers did, complaining that most top brass makes too much dough—except their *own* CEOs, who they claim are paid about right. Meanwhile, who can you trust? Turn to page 100.

Mark recalls. "The kids climbed the rocks, got through the obstacles, learned how far an encouraging word can go."

But they also got into plenty of trouble. Unaccustomed to the woods, the city kids were often frustrated, and this triggered fights. Tarps went flying; so did a few fists. The Marks nearly sent Millie home for instigating so many squabbles. But in one of their first demonstrations of cooperation, the other kids decided she should stay and, hoisting her up on their shoulders, began chanting, "Millie stays. Millie stays." She did, and things quieted down some.

Reuben Mark credits the work at Grand Street with opening his company's eyes to urban education. Other Colgate managers started to volunteer. After visiting a crumbling junior high school in the Bronx, says Mark, "I recruited some Colgate people to get involved. Then I bowed out. I get a big kick when others take over." He grins.

Mark, who serves on the boards of several different education groups, never uses his extracurricular activities to glorify his company. Marketing is about promoting products, he thinks, not corporate philanthropy. His work outside the office is intensely private; until this story, Mark has declined to talk to the press about the I Have a Dream program.

Conversely, Mark doesn't look upon the community center as a source of future employees. True, he's offered the kids summer jobs at Colgate. But it's part of a deliberate plan to instill the self-reliance, skills, and work habits necessary to go out and get jobs elsewhere. During the first summer, some kids received one-month paid internships under mentors, working as company-store cashier, mail-room messenger, and human-resources clerk. Two creative teens helped in the computer-graphics department; another had a job in security. The next year, the kids went to various departments within Colgate, after receiving help rehearsing for job interviews.

This summer, they went out into the world, working three days a week, some at an agency, others at a Hispanic TV station, a few at Colgate. "We prepare the employers, try to match kids to the right spots," says Mark. "Some of the kids are stable and reliable." Others aren't. "Hiring these kids is an act of charity," concedes Grand Street executive director Anna Hopkins. "Special-ed kids may flare up more easily than the average youngster or be disrespectful."

When a fistfight broke out on a camping trip into the wilds of New Jersey, the Marks almost sent one girl home. But the other kids began chanting, 'Millie stays. Millie stays.' She did.

Part of the problem is the parents, some of whom still don't buy into the program. Many receive public assistance. A few take drugs. The Marks still insist on tracking parents down and talking to them if they're hesitant about a program activity or if their child is having difficulty in school.

One mother refused to open her door to the Marks when they tried to convince her to let her son go on the Outward Bound trip. More frequently, Arlene Mark arrives at Grand Street and delivers a wake-up call to parents, asking them to rouse their kids for tutoring. Once she offered to take a mother to Colgate and point out where her son would work—to help her accept the prospect.

So far, at least, there's been little parental resistance to the Marks' latest project, the Entrepreneurial Academy, a simple capitalist experiment begun in July. The program started with a discussion of minority inventors and entrepreneurs. Then each student wrote a business plan, designed and made business cards, and drew a sign. The Marks gave each kid $50 to buy merchandise—cosmetics, T-shirts—to sell at a weekend flea market later in the summer. The best poster garnered a $100 prize. Any student who managed to put away $500 by September won a bonus of $100; $1,000 in savings earned an extra $200.

The I Have a Dream program is sometimes punctured by nightmares. This, after all, is a tiny island in a world of neglect, gang wars, and drugs. One girl recently became pregnant and plans to be a single mother. A boy was suspended from school after a weapon was found in his locker. Some kids disappear, moving in with another relative without leaving a phone number. Others stop coming to tutoring for months then reappear for special trips to Great Adventure or the Marks' house in Connecticut.

But there are successes too. Eddie, who couldn't read when the program started, won last year's award at his high school for the most improved student. This summer, Nina reported for her Colgate job interview in high heels, stockings, and a dress borrowed from her mother—decorum once completely foreign to her. And Millie, who has been building credits at a high school for kids with emotional problems, plans to attend college in a couple of years.

Meanwhile, the Marks keep trying to balance their ideals with realities. "Our goal is to keep them in school," says Arlene Mark. Her husband adds a different perspective. "The program is far more involving—and gratifying—than I anticipated," he remarks with quiet intensity. "Even though it's just a drop in the bucket relative to the overall problem, when you see any progress at all in the kids you feel very proud of them, you feel that maybe you've added a little bit to their hope." ■

Carol Milano is a New York writer.

Business Month, Publication Number (ISSN: 0892-4090), SEPTEMBER 1990, Vol. 136, No. 3. Copyright © 1990 by Goldhirsh Group, Inc. All rights reserved. Published monthly. Editorial and advertising offices at: 488 Madison Avenue, New York, NY 10022. Telex 592-379. Tel. 212-326-2600. Subscription rate for U.S. and possessions, 12 issues for $24; foreign airmail, $45. Please state title and company when subscribing. Publisher reserves the right to refuse nonqualified controlled subscriptions. **POSTMASTER: Send address changes and all mail to: Business Month, P.O. Box 55982, Boulder, CO 80322.** In case of change of address, send an address label from a recent issue. Second-class postage paid at New York, NY, and at additional mailing offices. The contents of this publication may not be stored or reproduced in any form without consent of copyright owner. Requests for permission should be directed to: Permissions Manager, Business Month, 38 Commercial Wharf, Boston, MA 02110. Tel. 617-248-8000. Business Month® is a registered trademark of Goldhirsh Group, Inc. Printed in U.S.A. The Business Month FaxPoll is a service mark of Goldhirsh Group, Inc.

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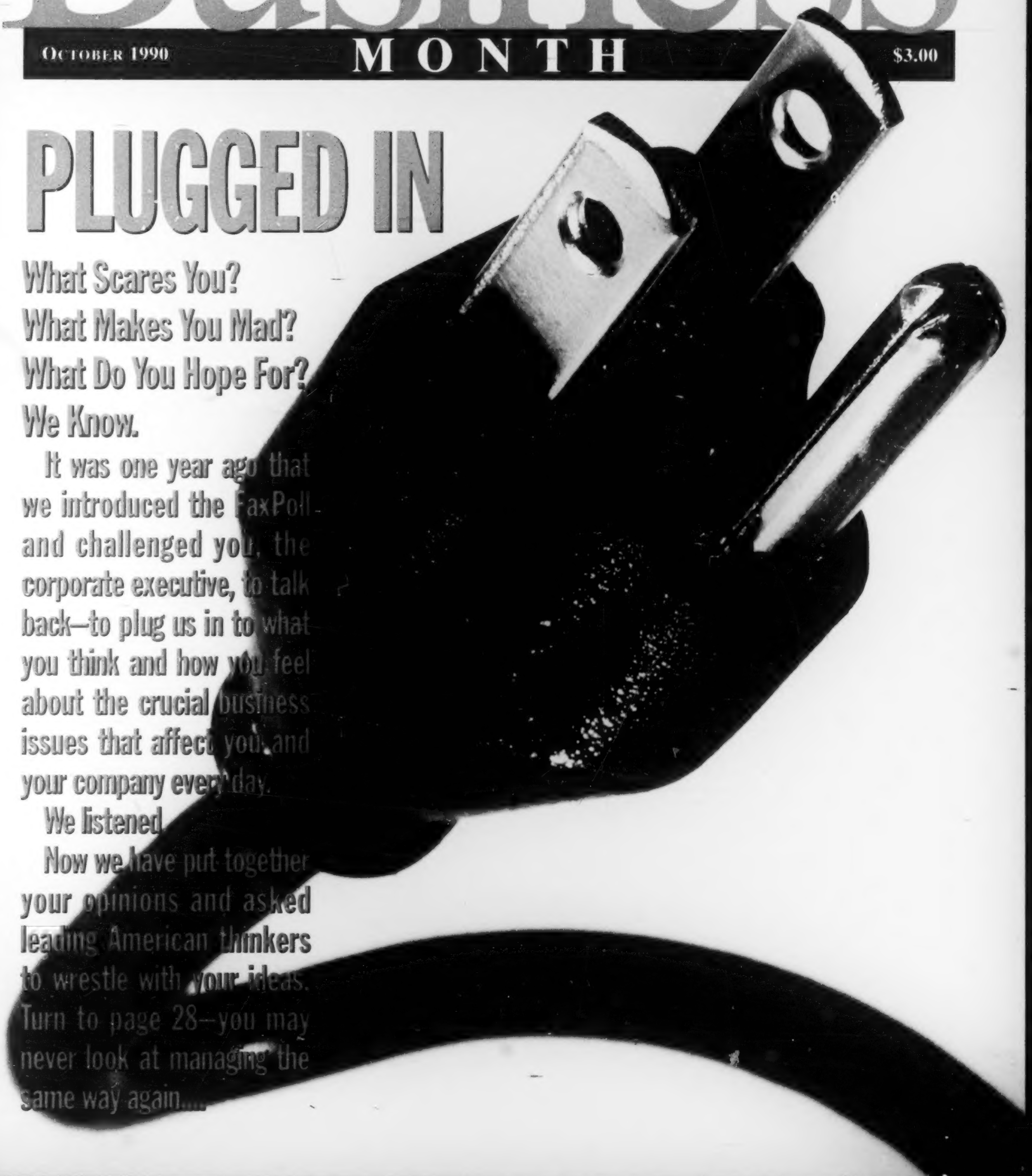

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What Makes You Mad?
What Do You Hope For?
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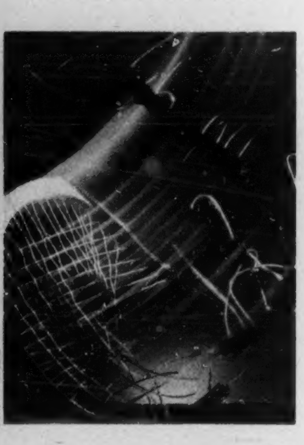
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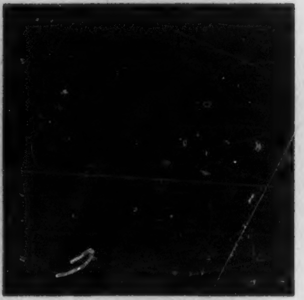
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Who Cares What You Think?
We do. One year ago we launched the FaxPoll, giving you the chance to sound off on today's critical management issues. Now, 15,000 responses later, we're coming back at you. We've asked leaders in business, academia, and journalism to challenge your opinions—maybe even change the way you run your company.

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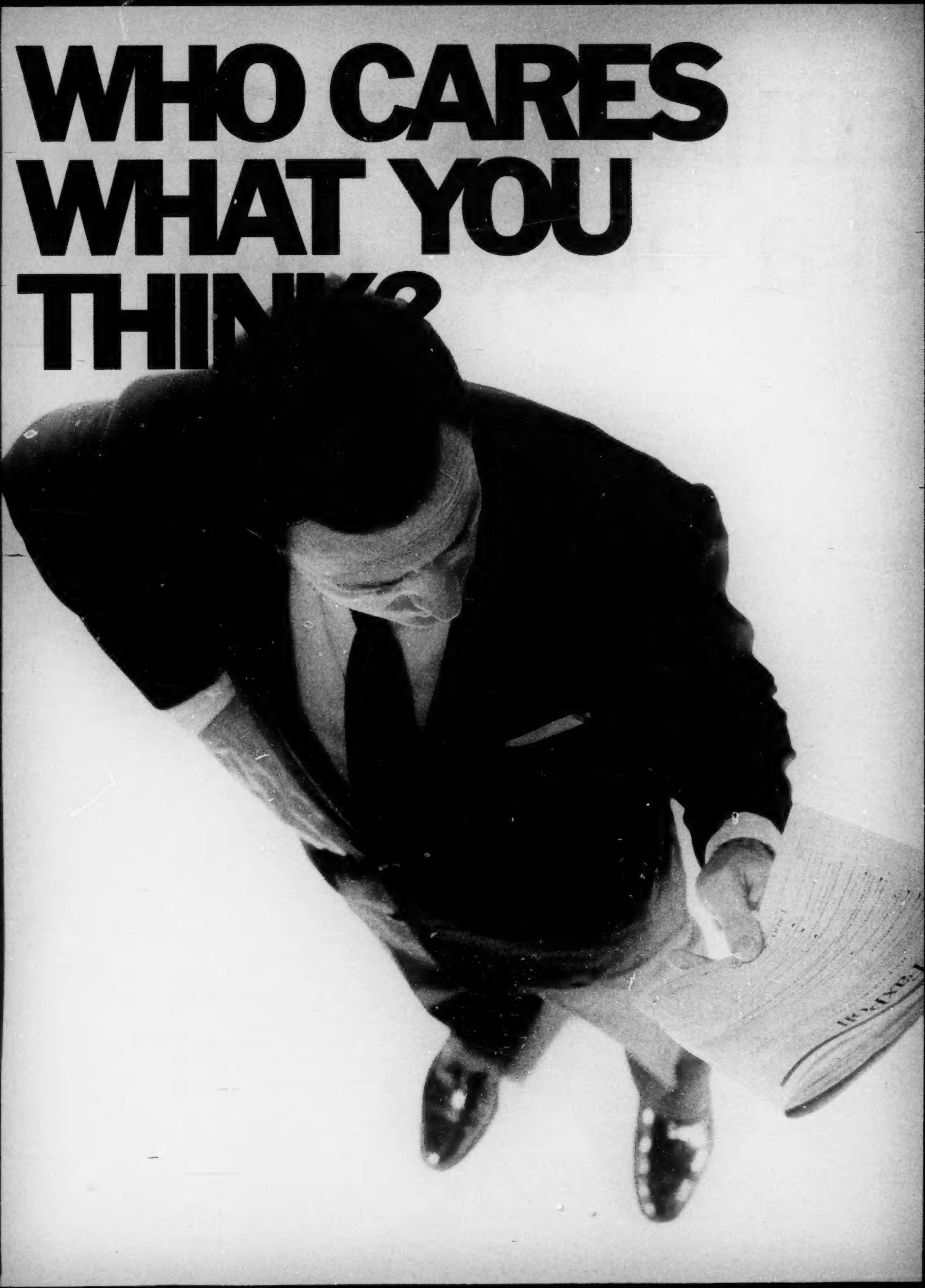
WHO CARES
WHAT YOU
THIN

SPEAKOUT: The FaxPoll opened a dialogue on today's crucial issues. You told us your fears, hopes, and frustrations. Here's how others see your workday struggles.

By Tom Post

WE DARE YOU. THAT'S WHAT WE DO EVERY month in the FaxPoll. We dare you to talk back to us—and to your managerial peers—about critical issues at the heart of American business.

And you've risen to the challenge. You've welcomed the chance by the thousands to tell us what's on your minds, to kick off a dialogue about ethics or layoffs or executive pay. You've told us what you think about drug testing at the office and executives who lie. You've offered suggestions about what we should do to cure the health-care crisis. You've put into perspective what loyalty means in today's company. After a year's worth of FaxPolls, we have what amounts to a national bulletin board of ideas, opinions, and feelings from corporate America's decision makers.

DURING THE LAST YEAR, YOU'VE HAD A CHANCE TO SOUND OFF ABOUT MANAGEMENT ISSUES. NOW, IN THE PAGES THAT FOLLOW, IT'S OUR TURN.

Now we're coming back at *you.* We've assembled leading people from business, academics, and journalism to give you their views of what's been on your mind for the past year. In the next 36 pages, they will challenge your thoughts, kick aside old assumptions, and push new approaches to the problems of what promises to be a tough decade.

What *is* the FaxPoll? A way of bridging the natural gap between readers and the magazine that serves them. We never intended to use the FaxPoll as a scientific survey or a statistical abstract. We leave that errand to market research. Instead, we wanted to interact with our audience in ways that had never been tried before. The idea was to give readers a voice and then react with stories that reflected and played off their concerns.

What have we learned about you?

You're responsive. That's obvious from the number of readers who have participated: some 16,000 people from over 10,000 companies—an average of 1,300 respondents each month. But those numbers don't reflect the *strength* of your responses—the hundreds of unsolicited thoughts scribbled in the margins of the poll and the pages of additional comments that come through our fax machines. These tell us you have a lot on your minds and, until the FaxPoll, little chance to ventilate those thoughts.

You're sometimes quick to take offense. The FaxPoll on women managers drew 1,924 responses, some of them livid. "This is not worth answering!" scrawled one angry reader, echoing those who bridled at the headline, "Are You a Ladies' Man?" Still, we managed to uncork a broad spectrum of opinion about a pressing social issue. You taught us a crucial lesson about human nature: Feeling is far more important than fact. Never mind that 20 years have passed since the first stirrings of the women's movement, or that the American work force is now split evenly between men and women. There's still a raging war between the sexes. Sure, two-thirds of you complain there are pitifully few women in management. But a stubborn minority clings to an ancient standard: "The business world is a MAN's world."

You can't abide the thought of defeat. Nearly 1,700 of you answered our poll on Japan, many sounding belligerent, fearful, even xenophobic. Typical were outbursts like "Wake up before it's too late!" and "If Cuba and Libya can nationalize, so can we!" Lots of you insisted that by acquiring U.S. assets, the Japanese were paying us back for their crushing defeat in World War II. But a few drew something useful from the humiliating rubble: "They've shocked us out of our complacency," one of you wrote.

You're enraged by things you can't control. In our health-care FaxPoll, almost 1,500 of you told us you felt

...WE DO.

PHOTOGRAPH BY CHRIS CARROLL; STYLED BY TONJUA TWIST

ripped off by the system. You pounded lawyers and doctors and hospitals with about equal fervor, reaffirming the ancient maxim that when you can't get to the bottom of a big social problem, the least you can do is find a scapegoat or three.

But you also have a keen sense of just deserts, as we found when we looked beyond the almost universal fury at the health-care system. If you're from a large corporation, you're more likely to think employees are entitled to unlimited care and can be trusted not to abuse medical services; managers at small outfits are more suspicious of workers and a lot stingier with health-care benefits.

You aspire to visionary ideals. How else to explain our most popular FaxPoll, on strategy? In what was an admittedly loaded question, we asked you to choose between the game plans of United Airlines' Steve Wolf (quick profits) and American Airlines' Bob Crandall (long-term growth). Small wonder that 2,025 people picked Crandall, while only 25 supported Wolf. But by similar overwhelming numbers you also blamed shortsightedness for America's loss of competitive muscle tone. You're willing to take part of the rap for the problem, scolding yourselves for torpedoing long-term planning and for paying too much attention to your own self-interest. Acknowledging the problem, of course, is a far cry from solving it.

16,000
FEEDBACK!
11,000

Some issues you'd simply rather not deal with at all. Take industrial pollution. Fewer than 600 of you bothered to answer the poll. Of those who did, most wanted to hang offenders by their toenails. But, strong opinions aside, only a handful of you had a clue about what to do with violators once they were caught, much less how to proceed with cleaning up or who should bear the costs. It's easy to see why: By and large, your companies could care less about the environment.

Illiteracy is another bugbear that makes you want to bury your head in the sand. In our March FaxPoll, you told us unequivocally that your work force was being infiltrated by people—managers as well as wage earners—who can't read, write, or communicate. You agree that we are facing a time bomb that's hurting performance, sales, and customer relations. And yet many of you insist it isn't your place to get involved. That's a curiously *un*businesslike attitude: For many managers, the greatest frustration is knowing there's a problem and discovering that nobody wants to do anything about it.

You don't like talking about your dirty work. Consider the poll on layoffs, to which only 827 of you responded. You'd think after all this time—and the fact that layoffs have become as inevitable as inventory checks—people could discuss the subject more openly. Apparently not: Many companies still botch the job, as four in five of you told us. "We don't seem to be able to make the best of a bad situation," observed a reader. "Relationships and politics leave companies limping along with the wrong people in the wrong jobs." If we were being cynical, we might conclude that layoffs are often more of a cash-flow decision than an exercise of good judgment.

You don't rush to gloat over the fall of the enemy. Even the spectacular demise of Drexel Burnham failed to draw a big crowd to the May FaxPoll, "Has Wall Street Whipped You?" The 835 who responded gave us the sense that merger mania had scorched managers across the country. You sounded demoralized and jittery, responsive to every feint by shareholders but deaf to customers. As one of you summarized, "Raiders are the worst thing that has ever happened to business." With the apparent retreat of corporate pirates, whom shall we blame in the coming decade?

Sometimes you're willing to take the easy out, especially when it comes to complex, intractable problems. More than 900 of you—60 percent of all respondents—told us that urinalysis was the best way to prevent drug abuse at the office. But, as one of you pointed out, it's often too little too late: "Testing is like shutting the barn door after the horse has left." To grapple with workplace illiteracy, half of you were eager to throw money at the problem, but fewer than 25 percent of you were willing to roll up your sleeves and get involved with local schools. That doesn't bode well for the future of corporate activism.

You're not easy to pigeonhole. In our inaugural FaxPoll, you shocked us by agreeing almost to a man and woman that ethics are as important as profits. But your sense of scruples is, well, adaptable: 42 percent of you told us it was okay occasionally to break the rules in order to save your jobs, and only 14 percent said paying bribes abroad was a *really* bad thing to do. We also had most of you pegged for Adam Smith-style capitalists. Imagine our surprise when we asked you the best way to safeguard the future of corporate America and many of you dumped on the free market. Most astonishing of all is your willingness to be self-critical. One in six CEOs who responded to August's poll on executive compensation conceded they're getting paid too much. Will they take the next step and persuade the board to renegotiate their contracts?

It's in this spirit of self-examination and debate that we offer "Plugged In," a special issue devoted to the FaxPoll. You've given us a year's worth of responses, a unique database of impressions, opinions, and thoughts that beg for further discussion. Every month, we come back at you in the Feedback column, summarizing and commenting on your answers to a particular poll. But that's not enough. To keep up the exchange of ideas between us, we turn some of your responses into feature-length stories in our magazine; others become the subjects of our SpeakOut column. The point is to keep alive an ongoing dialogue.

In the following pages, you'll find essays, satires, and debates to explore your workday struggles. Throughout, we've scattered FaxPoll Feedback facts and quotes from you that reflect your emotional responses to the various polls.

Don't neglect this month's FaxPoll on the back page. We dare you to say what you think of us—how well or poorly the media covers business. You also have the chance to let us know what topics *you'd* like to see in our second year of the FaxPoll.

Who cares what you think? We do.

PHOTOGRAPH BY CHRIS CARROLL, ILLUSTRATION BY JAMES MONTALBANO

TRADE SECRETS: You tell us more than you suspect when you answer the FaxPoll. How do we squeeze out that information—and what does it mean? Here's an inside look. By Robert Ladner

THINK ABOUT THE DIFFERENCE between an early Victrola and a CD player, and you get an idea of how the FaxPoll has evolved in the last year. When it was first launched, the poll reproduced the many voices of our readers as scratchy, undifferentiated sound. Now, after subdividing your responses by job title and size of company (what pollsters call "control variables"), we can distinguish very different voices with real clarity.

Why should that matter? Because the FaxPoll not only mirrors current opinion; it also suggests emerging trends—critical shifts in thought and feeling—in corporate America. It's one thing to report that 84 percent of all companies feel ripped off by the health-care system. It's quite another to realize that the rip-off threatens the financial stability of heartland small business: Fully 92 percent of respondents at small companies said they were getting a bum deal, compared with only 76 percent of those at the largest corporations. Adding control variables lifts the FaxPoll out of the realm of generality into the arena of sharp particularity, where attitudinal distinctions between, say, CEOs and middle managers jump into focus.

The FaxPoll is a listening and interpretive device. Every month we collect your responses and keypunch them into a computer. Our first crunch on the data is on the level of "38 percent of our respondents would work for a Japanese boss." To turn such data McNuggets into real food for thought, we cross-tabulate the key attitudes, which allows us to assert, for example, that 57 percent of those who'd work for a Japanese boss still think America is being shortsighted in selling corporate assets to Japan. Control variables, such as job title, add a further twist.

There's another reason to use control variables: to see how accurately your responses reflect BUSINESS MONTH's readership. On average, some 1,300 of you participate each month—0.3 percent of our total subscriber base. Asking you to check off your title and company size is no guarantee of a random sample, but it allows us to make comparisons across identifiable groups.

Consider the distinctions we were able to draw in May's FaxPoll, "Has Wall Street Whipped You?" Overall, 70 percent of you felt the fear of being taken over had changed your company, making it either more competitive or increasingly distracted. The real surprise: the underlying victimization of middle management. Presidents and CEOs were almost twice as likely to report the buyout binge had made them more competitive. But nearly half of all department managers said their companies had been badly bruised.

These deep divisions showed up elsewhere in the poll. Having weathered the storm, 29 percent of the "more competitive" respondents felt top management would slack off a bit in the 1990s. By contrast, only 19 percent of the "more distracted" people said executives would loosen up. These respondents were quite cynical: Fully 20 percent felt executive laziness was an outgrowth of its lack of vision. And those who thought executives would not become lazy reasoned that they were now forced to plan instead of react to raiders. It's easy to feel "more competitive" when you're at the helm of a ship of commerce, barking commands at the crew. But life feels very different to managers down below, bailing out the hold.

THE FAXPOLL HAS EVOLVED FROM A CRUDE RECORDER OF SENTIMENT TO A KEEN INTERPRETER OF EMERGING TRENDS

Our July poll on layoffs showed very different responses based on company size. The larger the organization, the more likely that changed economic conditions have forced downsizing. Among companies with fewer than 250 employees, only 45 percent reported layoffs, compared with 70 percent among companies with 5,000 or more people. Smaller outfits tended to compensate severed employees with health insurance, larger employers with generous severance pay.

Finer distinctions emerge when you add two control variables, as we did to our poll on executive pay. Some results were predictable. Ninety percent of top managers felt CEOs made too much money—except when it came to themselves: 84 percent of responding CEOs claimed their pay was "about right" or "too little." Middle managers felt differently—61 percent said their CEOs were overpaid—and 87 percent groused that they themselves were underpaid.

But there were surprises too. Most middle managers said their pay should be adjusted to reflect company performance because it would align their activities with overall strategies. But nearly 6 in 10 CEOs opposed the idea, contending that corporate performance was affected by forces outside the control of most middle managers. Company size also played a role: The strongest supporters of pay for performance were managers and executives in companies with sales under $100 million, clearly those with an entrepreneurial edge; the principle opponents were executives in corporations with over $1 billion in revenues.

As we continue to refine the FaxPoll, our aim is to deliver emerging trends of importance to decision makers. But we depend on you to tell us what you're concerned about. Keep taking the FaxPoll.

Robert Ladner, president of Behavioral Science Research Corp. in Coral Gables, Florida, serves as a FaxPoll consultant.

COMPENSATION

Before the greedy Reagan era, multimillion-dollar managers were rarer than the spotted owl. But now, of course, they're everywhere. Small wonder 90 percent of you complained that American chief executives are grotesquely overpaid.

1,444 RESPONSES

Filmmaker **Michael Moore** screams: Enough already! Page:

36

STRATEGY

Poor planning threatens to send us the way of the Model T, as 98 percent of you told us. But mere tinkering with an old plan may give your competitors a chance to zoom right past you.

2,050 RESPONSES

Stanford's **Richard Tanner Pascale** shows how risk and radical debate can jump start your firm's idle engines. Page:

38

WOMEN

"That ain't no way to treat a lady," clamored 64 percent of you who want more women managers. Not everyone agreed.

1,924 RESPONSES

So why don't more women make it? **Maggie Gallagher** says they just don't want to. No way, says **Gwenda Blair**: Men can't handle women at the workplace. Page:

42

DRUGS

What action would you take if you caught an employee doing drugs at the office? Send him to counseling, 77 percent of you said. But how do you keep him from reaching that low point?

1,510 RESPONSES

Manage him closely, says **Bank of America's John Cammidge**, but don't test him. Test away, says **Peter Bensinger**. Page:

60

EDUCATION

Poorly trained workers are a drag on productivity, customer service, and profits, as 7 in 10 of you told us. So how are the other 30 percent managing?

873 RESPONSES

Forget about teaching your employees what they can't learn, counsels **Ben Stein**. Incite them to work harder by offering juicy rewards. Page:

65

POWER

You say you've lost it—or aren't exactly sure just how to use it anymore.

835 RESPONSES

Being boss used to mean barking orders and smoking fat cigars. No longer. **Roy Blount Jr.** croons the CEO blues. But there's still room for nice guys at the top, argues **Abraham Zaleznik** of Harvard. Page:

70

JAPAN

While nobody's minding the store, Japanese investors are walking away with vital technologies. No wonder 8 out of 10 of you cried foul in our poll.

1,693 RESPONSES

Dear Mr. President: You blew it. But, according to **Clyde V. Prestowitz Jr.**, it's not too late to save our national security interests. Page:

48

ENVIRONMENT

They're no longer tree huggers in ripped jeans. They're people with a mainstream agenda. They're your *customers.*

537 RESPONSES

You may have neglected our poll, but you can't afford to ignore the issue. **Bill McKibben** tells why working alongside the Greens makes good bottom-line sense. Page:

54

HEALTH CARE

Nothing makes you feel madder—or more helpless—than those medical costs spiraling out of control.

1,775 RESPONSES

Who do you blame for our sick health-care system? Take a look in the mirror, argues Princeton's **Uwe Reinhardt**. The only cure is real reform, and it's your job to administer it. Page:

56

ETHICS

Are you good at telling right from wrong? Nearly all of you scolded two firms for lying to the FDA. But how quick are you to point the finger at yourselves?

1,350 RESPONSES

It's not as easy as you think, says CEO **Harvey Golub** of **IDS Financial Services Inc.** He should know; he's been there. Page:

72

LAYOFFS

The corporate axman cometh often—but his manners are awful, 8 in 10 of you told us.

827 RESPONSES

The slaughter is too fresh for discussion. Not so for **Michael Becker of McDonnell Douglas**, which axed 17,000. What if Frank Lorenzo were on the other side of the blade? **Joe Queenan** fantasizes. Page:

78

LOYALTY

A value that went out with fins on cars—or the last refuge of company yes-men? Few believe they owe their employers blind allegiance, though some still feel a bond with their own bosses.

1,137 RESPONSES

It's a new ball game, says **James Traub**. Now employees are free agents whose only loyalty is to themselves. Page:

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COMPENSATION: The million-dollar-a-year CEO is fast becoming a public enemy. It's now time for America's executives to ask, How much is enough?

By Michael Moore

CRISSCROSSING THE COUNTRY on a promotional tour for my film, *Roger & Me*, I found myself, through the generosity of Time Warner, sitting in the first-class section of some of our nation's finest air carriers. Seated around me were a sea of corporate types—suit gangs, I called them—most of them reading the latest Tom Clancy hardcover (a sign that the market was shining on them), the rest of them nervously thumbing through stacks of computer printouts. When they saw me take my seat among them, there was a murmur the likes of which is only heard when the flight attendant announces that they forgot the liquor tray back at the gate, "but we should be arriving in Tokyo soon."

Word soon spread to the uninformed that I was *that* guy who made *that* movie attacking General Motors, Roger Smith, Big Business, Apple Pie, and, indeed, our entire way of life! It was heartening to see that so many executives had seen *Roger & Me*. Their reasons for going to see it seemed to fall into two categories: 1) smug reaffirmation that they were somehow better than Roger Smith (or if they weren't, they at least would have the PR savvy never to have allowed some upstart filmmaker to get the best of them), or 2) it was important to see the movie so that they would know what the enemy (that is, "the people") was up to. Some of my first-class compatriots sought to engage me in a heated argument. Others wanted to assure me that, unlike Roger, they had social consciences. (There were times when I couldn't take it anymore—and had to go back and sit in coach.) A few were just so angry to have me sharing their complimentary hot towels that they couldn't speak to me. Instead, they wrote me long letters and handed them to me before departing from the plane. One began, "Even though an ingrate like you wouldn't believe it, executives have feelings, too!" I was so touched I almost began to cry.

Those who did want to talk, I would ask if they ever used the word *enough* in their daily vocabulary. Not in the sense of "My employees are paid enough!" or "OSHA's been here enough!" but rather "I guess I made enough money last year." That statement seemed like blasphemy, because in the language of capitalism there is no such word as *enough*. Who has ever heard of "enough profits"? Which CEO has ever uttered the words "I am paid enough"?

I understand that's not the way we play the game. The response I usually received was that the incentive of larger profits and a raise in executive pay guarantees a stronger economy—and that this largess will trickle down to the common workers. Unfortunately, this is not the case. The '80s were a great decade for those on top. Before Reagan took office, it was virtually unheard-of for a CEO to make $1 million a year. Today it is not uncommon for these executives to make $3 million annually in salary and bonus, with some raking in as much as $12 million.

WHAT WELL-PAID EXECUTIVES FAIL TO REALIZE IS THAT THE CARROT IS ON A STICK—AND THAT IT'S OUT OF REACH FOR MOST WORKERS.

Meanwhile, the rest of the country hasn't fared as well. Wage increases have been virtually nonexistent. Unions now represent only 16 percent of the American work force. The ranks of the poor and the working poor have risen. Hundreds of thousands of well-paying manufacturing jobs have been eliminated. True, a lot of new jobs have also sprung up, but they are lower paying and without benefits. Young families can no longer afford to purchase a home, a new car, or braces for their kids' teeth. The middle class is shrinking at an alarming rate.

The increase in profits and dividends in the '80s did not cause companies to hire more people and create more goods but rather to purchase other companies or to use their cash to make more cash. Take General Motors, for example. The six most profitable years in the history of the corporation took place in the past decade. Yet during that time, GM laid off tens of thousands of workers. This made no sense to the average employee, who had always believed in the basic premise of the American Dream: If you work hard and the company prospers, you prosper. Now it's, You work hard, the company prospers—and you lose your job!

Granted, there's not much money these days to be made from heavy manufacturing—which is why nearly a fourth of GM's profits come from its own lending institution, GMAC. Those profits were then used to buy other corporations, such as Hughes Aircraft and Electronic Data Systems. And, of course, there was a little left over for the top executives, who all enjoyed hefty increases at a time they were convincing the union to cut its members' wages and benefits. For all his success, Roger Smith asked for and was given a 70 percent increase in his pension, to $1.2 million a year. (His rationale was that GM was losing "good people" because of its low pensions. When asked who those talented people were, he couldn't seem to remember any of their names.)

Whether it's Roger Smith and his million-plus pension or A&P CEO James Wood "earning" $28 million last year, you have to wonder how that's sitting with the guy earning $5 an hour for making engine parts (he used to earn $15) or the single mother at the 7-Eleven who discovers she makes too much money to

FAXPOLL FEEDBACK

'FORGET BONUSES. WE NEED MORE BASE SALARY TO MEET LIVING EXPENSES.'

84% feel their companies are being ripped off by the health-care system.

56% grumble that their companies are not involved in any community cleanup of the environment.

Gender Offender

Our FaxPoll on women managers was a case study in exasperation at the evolutionary creep of social change in the workplace. Sexist attitudes persist—often covertly. Example: Two-thirds of those who think women no longer need to be protected by laws also believe it's okay to ask a female job candidate whether she's single. Nearly one fifth of those who said they wouldn't work for a woman boss still concede she's probably a victim of unfair discrimination.

'My CEO's pay is totally out of line for an ex-high-school coach who married well.'

qualify for the food stamps her children desperately need. I believe that a rapidly growing number of Americans have simply had it. They are fed up with this incredible disparity between the rich and the poor.

In fact, the more CEOs are raking in, the stronger the anticorporate sentiment that is taking hold in this country. In recent polls, the American public ranked Big Business among the "least trusted" groups—down there with politicians and used-car salesmen. Boesky, Milken, the Exxon oil spill, the defense industry rip-offs, and, most notably, the savings-and-loan scandal have caused the average citizen to realize that corporations do not have his or her best interests at heart.

What will all of this distrust and disgust lead to? Good things, I believe. Communities will no longer allow companies to pollute their air and water. Workers will realize that they have nothing to lose by trying to unionize (the jobs are being exported anyway). Politicians in the pocket of the S&L industry are going to find themselves in early retirement. The honeymoon for Big Business is over. You should have let some of it trickle on down.

Recently, while back home in Flint, I participated in a debate with the local president of the chamber of commerce in front of a group of visiting Soviet teachers. As he attempted to explain how a few in our country get really rich, he pointed out that our system is based on the concept of "controlled greed." We have it set up, he remarked, so that anyone can get to the top. The carrot that must be placed in front of us, he said, is the belief that one can make a lot of money here. What he failed to point out was that that carrot is on a stick, held out of the reach of those who are chasing it. The small percentage who grab the carrot have forgotten to share it. It's a mistake that will soon come home to haunt them.

Michael Moore, the director of Roger & Me, *has given half of his net proceeds from the movie to charitable and political causes.*

PHOTOGRAPH BY JOHN WILKES

STRATEGY: So you think you've got a winning formula. You can diagram it. It fits on the grid. It worked great last year. Wonderful. Until you finally realize you missed the business opportunity of a lifetime. By Richard Tanner Pascale

NOW THAT IT'S FALL, IT'S TIME ONCE AGAIN TO WORK on your company's strategic-planning cycle—a drudgery as inevitable as cleaning gutters choked with leaves. Otherwise bright and inquisitive executives line up for the dull incremental drill, knowing full well that their efforts to raise the really big questions will be either scuttled or ignored. They've resigned themselves to milking more out of the proven strategy, rarely challenging basic assumptions or engaging in a debate about where their business, much less their industry, might be headed.

Why must so many companies take a formula for success and perfect it to such a degree that they sow the seeds of their own decline? Consultants—and I am one of them—are partly to blame. This propensity for overspecialization in an existing niche has been unwittingly fed by people like Harvard's Michael Porter. You've all heard about his "value chain," those company activities that can be diagramed and locked up in grids to point out the supposed source of competitive advantage.

QUESTION: WHAT DO WALTER WRISTON AND ALBERT EINSTEIN HAVE IN COMMON? ANSWER: A NEW TAKE ON THE UNIVERSE.

Clearly, the rigor of such an approach has benefits. But one result, unhappily, is that companies are now pouring more energy than ever into taking a good thing too far. United Parcel Service, an ardent practitioner of Porteresque ideas, has been squeezing the maximum out of its value chain as a parcel-delivery service. But by concentrating narrowly on how parcels should be moved (mostly by truck) and at what speed (three to five days), UPS missed the burgeoning market for faster, one-day air delivery that was pioneered and exploited by Federal Express. UPS is still playing catch-up.

Why we continue to wander down well-worn strategic paths has its origins, in part, in the way people think. The human mind thrives on patterns. Concepts about how an industry is defined or convictions about winning strategies within an industry are examples of such patterns. Scientists call these patterns paradigms. In his provocative book, *The Structure of Scientific Revolutions*, Thomas Kuhn first popularized the term *paradigm* as "a constellation of concepts, values, perceptions, and practices shared by a community which forms a particular vision of reality that is the basis of the way a community organizes itself."

Because they are belief systems shared by the community, paradigms are seldom questioned, much less challenged. If a new fact or idea contradicts the belief system, the rationalization is, "We're not yet smart enough to figure that one out." In this scheme, people spend most of their time mopping up: Instead of innovating, they work on small puzzles that can be solved within the existing paradigm. Eventually, however, the puzzles pose a growing and frustrating challenge to conventional wisdom, shaking the community's belief. A radically different view of the world emerges and is met first by tremendous resistance and, much later, acceptance.

The clearest example of a major paradigm shift is Einstein's theory of relativity. Early in this century, Newtonian mechanics began to unravel as a result of a series of experiments on matter as it approached the speed of light. Einstein's theory, which explained these contradictions, didn't completely knock out the old paradigm, but it changed the context for thinking about it, upending the classic belief system. Other physicists instinctively recoiled at the new explanation of matter. It was only after the postulation of quantum mechanics and particle physics that Einstein's paradigm gained acceptance.

In the same vein, many executives have a hard time intellectually and viscerally accepting new strategic paradigms. Few are intuitively obvious; most challenge basic, age-old assumptions—for example, that you can have high quality *or* low-cost production, but not both. Then the Japanese came along and proved that both were possible.

Some of the smartest entrepreneurs ignore potential paradigm shifts—even when they're right in the middle of them. While Howard Head introduced the world to metal skis, he completely missed an opportunity to redefine an industry. Yes, he saw that metal skis delivered higher performance than wooden skis. But he failed to capitalize on the idea that new technology could be applied not only to skis but to bindings, boots, poles, camping gear, and clothing as well. Other companies exploited the possibility that, as the technology evolved, athletic equipment had built-in obsolescence. With that insight, they were able to turn a prosaic, once-in-a-lifetime purchase into a fashion-driven, repeat-order business.

It's human nature simply to refine the successful formulas of the past. But it's dangerous to become so absorbed in tactical maneuvering that you give up the search for superior strategic paradigms. Breakthroughs require a change in frame of reference. Examples: Walter Wriston, who changed the nature of banking from a money-moving business to an information-moving enterprise; or McDonald's, which revolutionized the hamburger business by introducing uniform quality and a predictable experience for the nation's taste buds.

A more recent paradigm shift can be seen in Walt Disney Company's latest financial strategy, which is changing what it means to be in pictures. Movies, of course, are a high-risk crapshoot, and Disney engages in its share of these ventures single-handedly. But over the last several years, it has increasingly spread a portion of that risk to individual investors through limited partnerships that raise funds for screenplays and production costs. By altering the traditional financial paradigm, Disney has partially insulated itself from the boom-and-bust cycle of filmmaking.

The Japanese have readily grasped the importance of strategic paradigms. They saw in one industry after another that competitors were gradually closing in on their edge in cost and quality. So they began looking for a different paradigm to sustain their competitive advantage. They concluded that, by and large, Japanese companies have superior organizational capabilities. They communicate more efficiently, network better, and handle the lateral relationships among design, engineering, and manufacturing in a more efficient way than most American corporations.

The new Japanese edge: strategies based on speed. It shows up in Honda's ability to take an automobile from concept to customer in a mere two and a half years. That compares with four years for Ford and eight for General Motors. The speed paradigm provides a formidable competitive weapon. It means that Honda is developing its third-generation product while GM is still grappling with its first. In one industry after another—from consumer electronics and computers to machine tools and capital equipment—the ability to get to market faster

FEAR

FAXPOLL FEEDBACK

[illegible] the rest of the world.

"Fear is the most potent deterrent," a reader argued in favor of drug testing.

[illegible]% fear that short-term thinking hurts our competitive position

77% are afraid America is being shortsighted in selling assets to Japan

No Panic Button

The fear of being taken over [illegible] during the late 1980s, and [illegible]. Nearly 4 in 10 CEOs and presidents claimed that takeover threats made their companies more competitive.

PHOTOGRAPH BY E.R. DEGGINGER/EARTH SCENES has become the ultimate battleground for strategic advantage.

One of the greatest perils confronting American companies today is that our concept of strategy is largely tactical, not truly strategic. Tactics can't be completely ignored. Understanding the economics of a business, identifying strengths and weaknesses in the value chain, allocating resources to improve competitive advantage in traditional ways—all these require considerable attention.

Yet in themselves tactics are insufficient. In a world of global competition, with so many players scrambling for advantage, we can be certain that paradigm shifts in strategy will be more frequent than ever before.

But how can companies provoke strategic renewal on an ongoing basis? The answer isn't to ship off the strategic-planning group to workshops on creativity, brainstorming, and lateral thinking. It's much tougher than that.

There is an important law of cybernetics—the law of requisite variety—that states that for any living system to respond to shifts in its external environment, it must cultivate variety within its internal world. What do we mean by "variety"? Variety shows up as differing points of view, the siphoning off of resources from core projects into skunk works, even deviant behavior. *Variety* is synonymous with that naughty word *contention.* Most executives are very uncomfortable with contention; indeed, it's usually associated with a state of organizational ill health.

But that's primarily because we manage contention badly—by personalizing it, smoothing it over, or escalating it into warfare. Current research suggests how organizations can create conditions to channel contention productively. It's a cheap and abundant fuel that can spark creativity, provoke new insights, and challenge the status quo. Experience in recent years, particularly at companies such as Ford Motor and General Electric, has shown that organizations can upgrade their skills in harnessing contention into something productive—learning to rock the boat to keep our paradigms current.

Richard Tanner Pascale, author of Managing on the Edge: How the Smartest Companies Use Conflict to Stay Ahead, *is a lecturer at Stanford University's Graduate School of Business.*

WOMEN: The glass-ceiling excuse is so much nonsense. So is discrimination. Many women don't reach the top because they just don't want to. By Maggie Gallagher

AROUND 10 A.M., THE PHONE rang. It was the White House on the other end of the line, asking if I was interested in a position as a speechwriter. How did I react? Adrenalin surged. I felt my heart pound and my ego expand. Delusions of grandeur danced in my 27-year-old head: power, prestige, career advancement, more money. Taking a deep breath, I asked for 24 hours to think it over. Then I told them:

No thanks.

Many people would call me crazy. In the prevailing worldview, where workers are presumed to be scrambling madly up the ladder of success, my decision certainly made no sense. But then, the choices women make often don't. Like, for example, the choice not to be boss.

If I am crazy, I am not the only one. In the past 20 years, women have flooded the work force. Yet a stubborn majority of them remain firmly in female occupations and female career tracks. The same pattern holds even among women under 35, where the majority work in such traditionally female occupations as teaching, nursing, sales, and clerical work. Do they fill these jobs out of frustration? I don't think so: Never before have women felt such strong cultural and economic pressures to seize new and seemingly genderless opportunities.

The answer, I think, is twofold, but rooted in the fact that men and women seek different kinds of satisfaction in their work. First, most women pursue jobs that allow them to spend time with their children. Second, many women look for positions in which they do not have to climb hierarchies.

Even within professions once dominated by men, such as law, women tend to cluster in certain jobs: They practice family law, not corporate litigation. Women with powerful job credentials—a medical or law degree, for instance—are far more likely than men to use their market leverage to gain flexible hours or to work part-time. In fact, women are three times more likely than men to work part-time, according to a 1990 Brookings Institution study by Northwestern University economist Rebecca Blank, and far more women than men say they work part-time because they want to. The Bureau of Labor Statistics tells us that only a little over half of working women are employed full-time all year round and that 57 percent of married women with children either don't work or are employed part-time. With the explosion of small, home-based businesses, nearly one-quarter of all working women operate from their own homes.

Most women deliberately avoid following male career paths. It has nothing to do with being brainwashed by patriarchal culture or being too oppressed by lack of day care. It has nothing to do with glass ceilings. Just look at the examples of women who have broken through the glass ceiling and can afford full-time housekeepers—and yet still cut back at work to spend time with their families.

Case in point: Jane Pauley. Last spring, she ruled out becoming a coanchor on the *NBC Nightly News* because the 7 o'clock airtime would have meant getting home after her children were in bed. Like many successful women, Pauley was concerned that her decision might be used against other ambitious women. "I have obligations that would make certain assignments impossible. But they wouldn't be impossible, say, for Connie Chung or Diane Sawyer," Pauley told an NBC-affiliates convention. Then Connie Chung announced she was cutting back her hours in order to concentrate on having a baby. High-status jobs or no, these women want to enjoy their children. When the White House or any other prospective employer calls me, the first question I ask is, Can I leave at 5 o'clock?

There's another factor: What women enjoy about a job is often very different from what men find rewarding. It's not really a matter of money or title. Despite lower pay and pink-collar jobs, for example, most studies reveal that working women's reported job satisfaction is just as high as men's. But men more often value what social scientists call "task autonomy." They want a job in which they are in charge of their own work. Women, on the other hand, place a much higher value on social rewards, such as good relations with colleagues and supervisors. They are also more likely than men to want their work to be "interesting."

Women flock to female professions because they like to work with other women, in jobs tailored to meet women's needs and desires. Teaching, social work, and nursing are valuable professions in which employees measure success by how much good they do, not how high up the hierarchy they're able to climb. These female professions are also structured to allow women to drop out or cut back when children are small and drop back in again as their kids grow up. Women choose to run home-based businesses for much the same reasons: maximum flexibility and minimum hierarchy.

As we encounter the labor shortages of the 1990s, businesses must meet human needs, most especially the needs of women, who form the largest reserve pool of educated workers. And that is exactly what the marketplace has begun to do. Mommy tracks were not invented by managers eager to keep women in their place. They were created by managers who noticed that they were beginning to lose too many of their best and brightest women. Female professions and career paths aren't lingering remnants of past oppression but harbingers of the wave of the future—testimony to the ability of a free market to respond creatively to the desires not only of consumers but of workers as well.

Maggie Gallagher, former article editor of National Review, *writes frequently about women's issues.*

MEN VS. WOMEN: Imagine two men in a boardroom. One says, 'Gee, you look like a hunk this morning.' Ridiculous? Maybe. But it still happens to women every day.

By Gwenda Blair

During the 1970s, there was a riddle that never failed to stump an audience. It went like this: *A man and his child are in an auto accident. The critically injured child is brought to the hospital for emergency surgery. The surgeon goes into the operating room, looks at the patient, and gasps, "I can't operate; it's my son!" Who is the surgeon?*

Everyone I knew was stymied—and then chagrined to learn the obvious (but, at the time, unthinkable) solution. The surgeon was the child's mother.

Nowadays a female surgeon—or, for that matter, lawyer, politician, or investment banker—is no longer unthinkable. Women are nearly half the work force and make up 40 percent of a grab-bag category the U.S. Labor Department calls "managers and administrators." Women sit in Congress, in the Cabinet, and on the Supreme Court. We're not quite at the Pearly Gates yet, the pundits agree, but in a remarkably short period of time, we've launched ourselves toward the kind of future portrayed in *Star Trek*, where men and women mix easily in the workplace and nary a trace of conflict between the two is ever seen.

IF YOU THINK IT'S HARD TO BELIEVE THAT WOMEN AND MEN CAN WORK TOGETHER PEACEABLY, TRY TREE HUGGERS AND BEAN COUNTERS ON PAGE 54.

Yet somehow that easygoing, harmonious future where men and women work as comfortably with each other as they do with colleagues of their own sex has never arrived. (Even on *Star Trek*, come to think of it, the commanding officers are all male.) Women still complain that they are made to feel like intruders in the boys' club. If they are not ignored, they are treated like sex objects, which is even worse than being ignored. Men, for their part, complain that women haven't learned how to fit in. As one senior executive at US Sprint (who asked that his name not be used because his wife would not approve of his remarks) put it, "I wish I could say that I like working with women, but the truth is it's an awful lot of trouble. With a man, I know where I'm at; with a woman, I'm at sea. They just don't act like they know what they're doing."

The result, as the world knows, is that women executives seem to run into a glass ceiling that blocks their careers. In fact, there are so few women in the upper echelons of the nation's largest corporations that Secretary of Labor Elizabeth Dole has launched a "glass-ceiling initiative" to help women and minorities break through to the top.

What happened on the way to that state of androgynous bliss? According to Darlaine Gardetto, professor of sociology at the University of Missouri, the real story is what *didn't* happen. Despite the enormous increase in the number of women employed, there has been almost no change in the distribution of women through the work force. They are still overwhelmingly concentrated in what are considered pink-collar jobs, such as office managers, teachers, nurses, and social workers. In other words, roughly the same proportion of all jobs, 20 percent, continues to be considered female turf as was true at the turn of the century. As a result, although women have been streaming into the workplace for decades, those who venture out of a narrow range of occupations find themselves faced with the unexpected (and unwelcome) task of having to hack out trails they assumed had been blazed long ago. Despite media insistence that we live in a "postfeminist" era, many, if not most, men have yet to adjust to working with the opposite sex, and many, if not most, women are unsure of how to behave when they are suddenly thrust into an all-male enclave.

THIS IS NOT A THEORETICAL issue of interest only to academic social planners poised over their drawing boards. Like it or not, the work force is changing. White men represent only 15 percent of new entrants, which means that employers who limit themselves to that segment are limiting their own competitiveness. Good managers know that; they just don't know how to deal with all these women and minorities they've had to hire.

The fundamental problem is the old philosophical difference between equality and identity. Men and women may be equal, but they are not identical—and nobody knows what to do about the difference. In social situations, they celebrate that difference; in work situations, they are supposed to ignore it, which almost nobody manages to do. When women try to circumvent the difference by acting more like men, the men are resentful (and often confused). When women stick to traditional "female" behavior, men tend to see them as mothers and/or lovers, not colleagues.

And even those women who manage to strike a balance between the two poles say it is close to impossible to avoid being viewed as "the other" when you're the only female at the conference table. "It happens in little ways, even with the best-intentioned guys," says June Peoples, vice president of a technical market research firm in Seattle. "You'll be sitting down to some meeting, and one of the men will suddenly pop out with, Gee, you look really gorgeous today. I mean, come on. Can you imagine them saying to each other, Hey, you sure look like a hunk this afternoon. I don't need to be singled out like that."

On the other hand, many women don't like it when they really are treated no differently from the next man. "Women are put off by the kind of competition and criticism that men take for granted and then laugh about over a beer," says Madeleine Swain, president of Swain & Swain, a consulting firm in New York. Unfortunately, there's more than a clash of sensibilities at stake here. When men see tears, they conclude that women are fragile and back off, which means that women are deprived of the day-to-day feedback needed to fix small problems before they become big ones.

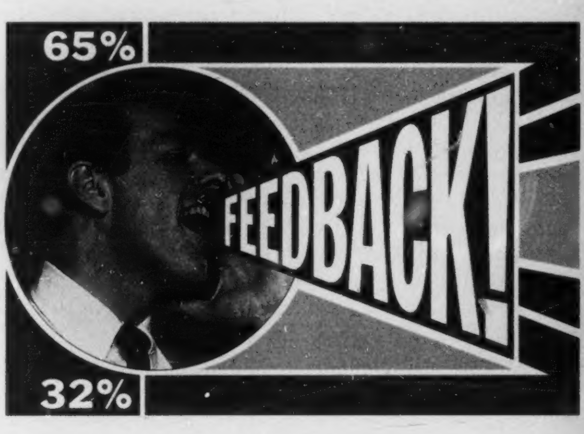
Even if men do manage to ignore the differences between the sexes, they often end up judging women as if they were men—which, of course, they aren't. For a primer on the differences, just check out your nearest playground. The little boys are running, tussling, shouting, and competing over even the tiniest accomplishments ("I stepped off the curb before you did"). Girls are planning their birthday parties, looking over each other's clothes, figuring out the relationships between everyone in sight, and whispering, "I know a secret."

Translated into adult behavior patterns, this means that men tend to act first and ask questions later and that women tend to do the exact opposite. They want to think things through and make sure they're on the right track, the kind of cautious approach that can (and often does) drive a guy up the wall. Worse, they have a habit—irritating in the extreme to a man in a hurry—of wanting to talk about whether a course of action is fair to those involved and how it will make them feel. To Harvard psychologist Carol Gilligan, this is evidence of women's "moral development"; to men it's the kind of hemming and hawing that doesn't belong in an office.

"Men tend to think the way you take charge is loudly and visibly, leading the charge up the hill," says Thanos Triant, director of business systems for Sun Microsystems in Palo Alto, California. "Women's style is less gung ho. Rather than shooting from the hip, they draw people in, trying to gather more information before coming to a conclusion." Obviously, judged by one sex's standards, the opposite sex will be found wanting. And because most of the time it is men who are doing the judging, it is women who are falling short.

But why should either sex have to fall short? Given that 1) men and women will never be identical, and 2) both male and female styles have strengths, what we need are workplace standards that value both. For every occasion that requires a quick judgment call, there's another where the ability to listen carefully and pay attention to nuance is critical. In fact, says Swain, in an increasingly global economy, women's ability to read body language, to pick up on subtleties and change direction midcourse may give them an edge.

But that's the Big-Picture Approach. In the meantime, on the everyday level of how to relate to the woman/man in the next office right now, even an ounce of accommodation can go a long way. For example, the men in June People's office could eliminate some static if they complimented her on her appearance *after* a business meeting. Likewise, the women at US Sprint would find life with at least one senior-level executive a lot smoother if they didn't share their hesitance and insecurity quite so freely.



Wishful thinking? At one time, I might have thought so. But that was before I began to pay attention to my husband's softball team. Five or six years ago, the roster at this Saturday afternoon activity consisted of about two dozen men and perhaps five women, all of whom knew each other professionally. The women were not exactly first draft choices. All the men played better than they did, and almost all of the men would have been happier with an all-male squadron. League rules insisted that women be allowed to play. But

FAXPOLL FEEDBACK

'AMERICA BELONGS TO AMERICANS.'

A New Pledge of Allegiance

A fair number of you (nearly 22%) claimed that the worst thing about selling U.S. assets to Japan is losing a sense of national pride. (As one of you wrote, 'It's a good thing Mount Rushmore isn't up for sale.')

But you're no ordinary red-white-and-blue patriots: Almost half of you said you'd work for a Japanese boss, and 48.5% contended that Japan's acquiring existing companies such as CBS Records and Firestone Tire & Rubber was actually *good* for the U.S.

86% of you would be proud to work for a woman boss

51% of you trust your employees enough to give them more say in day-to-day operations

41% of you take pride in the way your companies handle layoffs

second only to
personal excellence,
one who claimed he was
paid too little.

PHOTOGRAPH BY MARK JENKINSON

those rules didn't mean anybody had to make them welcome, and nobody did. They were always chosen last, they were always posted to the very farthest reaches of right field, and they would find their turns at bat skipped over if a game was close.

But something happened as the years rolled by. For one thing, more women showed up, and they gradually got better. Not great, but definitely better. Moreover, the fierce arguments that used to punctuate the afternoon began to diminish. It's been several years now since they've had an actual screaming fight. When there's a truly close call, more often than not it goes the way of the losing team. And when my husband comes home, he's a whole lot happier. The caliber of play may have slipped slightly, but the actual object of the game—to relax and have fun—is accomplished far more often.

The other day, one of my husband's teammates muttered that if his office were as diverse and accepting as his team, they'd get one hell of a lot more work done. In other words—at least this is how I see it—he has seen the future, and it works.

Gwenda Blair writes on business subjects. Her most recent book is Almost Golden: Jessica Savitch and the Selling of Television News.

JAPAN: Okay, so we let them have cars and TVs. But now we're selling off our vital interests. George Bush, it's time to check in.

By Clyde V. Prestowitz Jr.

Dear Mr. President,

LEST YOU MISS IT IN ALL THE MIDDLE Eastern excitement, I would like to request that you focus your attention for just a moment on the CFIUS issue.

No, CFIUS is not a social disease. It is the Committee on Foreign Investment in the United States. Currently chaired by the Treasury Department, the committee makes decisions that may have much more impact on future national security than Saddam Hussein's next move.

As you may recall, CFIUS is supposed to review new foreign investments in our country, recommending that you nix any deal that poses a potential threat to our national security. But in the absence of White House direction, CFIUS has been falling down on the job.

Earlier this year, Union Carbide decided to sell its polysilicon division to Japan's Komatsu Electronic Metals Corp. Polysilicon is the basic material for the production of semiconductors, which, of course, are the foundation of today's electronics industry, not to mention of advanced weapons systems. But Union Carbide didn't make just plain old polysilicon; it made the most advanced type. In fact, it was the only patented producer of ultrahigh-purity polysilicon now being tested by the Pentagon for use in the Star Wars program.

Then there was the case of Semi-Gas Systems Inc., a division of Hercules Corp. and the major American producer of the gases and containment systems used in making semiconductors. It was recently sold to Nippon Sanso.

Both deals were reviewed and approved by CFIUS, which surrendered effective control of key parts of the U.S. electronics industry—an industry on which our national security rests—to foreign companies.

This may be the first time you ever heard of these cases. No wonder: CFIUS is run at the deputy-assistant-secretary and office-director levels, some six or seven tiers of bureaucracy away from you, a location that speaks volumes about the importance the U.S. Government attaches to the question of who controls vital industries. Still, I am sure you know the rationale on which the decisions were based—it flows directly from your report on the state of the U.S. economy, written under the direction of the Council of Economic Advisers.

It was said that foreign investment would create jobs, help alleviate the scarcity of capital in the U.S. economy, bring transfers of technology and new management techniques, strengthen manufacturing as well as R&D capabilities through new investment, and give U.S.-based operations better access to the difficult Japanese market.

There was no need to worry about insidious foreign control, the argument went: Japan is a friend and ally whose interests are virtually the same as our own; to consider otherwise was to engage in gratuitous bashing. Besides, it was said, if such companies were not sold to the Japanese, they would have to be auctioned off at lower prices to U.S. buyers—if any could be found.

Finally, any concern about sectoral capabilities of U.S. industry would amount to an industrial policy, a terrible no-no in recent years. In the stirring words of Richard Darman, your director of management and budget, "What do we want a semiconductor industry for? If our guys can't hack it, let them go."

And let them go you did. CFIUS did not think to ask the new investors to give assurances about new investment, continued R&D spending, job creation, transfer of technology, or anything else. Nor could CFIUS count on much help from the rest of the government to determine the likely behavior of these new owners. The reason: Present practice prevents the Census Bureau, the CIA, the National Security Agency, or any other data collector from sharing truly useful intelligence with CFIUS.

STRATEGIC TECHNOLOGY ISN'T THE ONLY THING THAT'S SUFFERING FROM MALIGNANT NEGLECT; SO IS OUR HEALTH-CARE SYSTEM. SEE PAGE 56.

These troublesome questions will not, like your dog Millie's recent bout of indigestion, go away easily. In light of the unwillingness or inability to deal with the domestic budget deficit or the trade deficit, you can expect a continuing torrent of foreign investment into our country. This is a critical opportunity to reexamine the assumptions underlying the de facto policies of your administration.

• JOBS. The truth is that while foreign investment may create jobs, it can also take them away. Indeed, according to *The New Competitors: How Foreign Investment Is Changing the U.S. Economy,* the authoritative book on the subject, in the past decade foreign investment has resulted in a net loss to the U.S. economy of roughly 55,000 jobs.

How can that be? Simple. If a foreign company acquires an existing plant, as in the cases of the polysilicon divison and Semi-Gas, no new employment is created unless operations are significantly expanded. Frequently, following an acquisition, some activities are shifted abroad, creating a net loss of jobs.

• CAPITAL. In some cases—such as Materials Research Corp., a supplier of high-technology materials to the electronics industry lately acquired by Sony Corp.—U.S. companies might have gone out of business, laid off workers, or restricted operations for lack of adequate capital. But in other instances, that is far from the case. Semi-Gas, for example, is a very profitable operation that was the object of a bid by an inside group of managers. But the Japanese made a larger offer. And in the absence of any policy response from your administration, the Hercules board was duty-bound to accept the higher bid.

• TECHNOLOGY TRANSFER. This is the heart of the issue. Certainly, many U.S. steel companies have benefited from infusions of Japanese technology as a result of several joint ventures. But in perhaps a majority of cases, including Semi-Gas, the transfer has been out of the United States. In the last few years, hundreds of U.S. high-technology start-ups have accepted foreign investment at a huge national cost: namely, transferring at least some proprietary technology abroad.

Worse still, our universities, those cradles of technology, are now being seduced by similar offers. Hitachi Corp. recently concluded a deal under which it will construct a laboratory building at the University of California at Irvine. There's a catch, of course: In exchange for its munificence, Hitachi will have control of certain patent rights applicable to new discoveries made by university biotechnology researchers, most of whose work is actually subsidized by California taxpayers.

Should these deals be made at all? Forget the fact that many who come here with billions of yen to invest are the very Japanese companies whose dumping and predatory collusion played a major role in the virtual disappearance of the U.S. television and DRAM semiconductor industries. Does a new Japanese auto plant in the U.S. actually contribute to the wealth of the nation? Not if it results in the closure of U.S. plants, or if a large portion of its components come from overseas. Not if the foreign investor contrives to pay few, if any, taxes.

THANK THE INDIVIDUAL STATES for some of the predicament. Without any guidance from Washington, several states have established industrial-development policies of their own, opening offices in Tokyo and Brussels to solicit investments. More often than not, these states wind up competing with one another to see who can give away the most in tax and other financial concessions to lure a chunk of foreign money.

Only you, Mr. President, can bring some rhyme and reason to the situation. But you can do so only if you reject simplistic dogma and begin to deal with foreign investment in the same analytical fashion in which you approach Soviet or Middle East policy.

The fact is that foreign investment is neither always good nor always bad. If it adds employment and net new wealth, if it results in at least as much technology being transferred to the U.S. as is taken away, if it truly improves management—and if it does all this without compromising our political processes or reducing our freedom of action in the international arena—then it is definitely good. But if it does not do these things, it could be more of a threat to our national security than anything the Russians or Iraqis have ever dreamed of.

I suggest, therefore, that you make developing a sensible policy on foreign investment and a revitalized CFIUS a matter of the highest priority.

Respectfully yours,

Clyde V. Prestowitz, Jr.

Clyde V. Prestowitz Jr.
President
Economic Strategy Institute

ENVIRONMENT: "Radical" protesters may seem like your enemies, but they're the best friends you have. Working with them will help you cut future waste—on your balance sheet. By Bill McKibben

Your shareholders' meeting smells a little fishy—perhaps because some protesters have dumped 500 pounds of dead fish next to the dais. The fish come from across the river beneath your plant, the same river where some radical activists welded shut your effluent pipes. The not-so-radical environmentalists have filed seven lawsuits in the past two years, and the federal government—despite the best efforts of your local congressman—just levied a seven-figure fine for violations of the Clean Water Act. Oh, yes, the consumer boycott seems to be catching on....

The sulfurous stench of the paper mill doesn't smell so much like money anymore; the sooty haze doesn't look so much like progress. Many good, tough businessmen have figured out that environmentalism is no longer a fringe movement—that it's going to be one of our preeminent industrial realities. It's far too soon to say that American consumer capitalism has "gone green." But, as on a bright March day, you can look up to the hills shedding their snow and see at least a *hint* of green.

The evidence is abundant. On Earth Day, scores of big companies—including quite a few with abysmal environmental records—rushed to contribute money. In the stores, "environmentally friendly" products have grown on the shelves like mushrooms after a week of rain. And the commercials! If you read the ads for McDonald's, you would think they were a sort of giant recycling agency that happened to serve hamburgers on the side.

Why the flurry of activity? Corporations are starting to see that conservation isn't the profit-draining burden it once seemed. In fact, given the new realities of the 1990s, they're finding that waste reduction and pollution control make sense (by saving cents) in the long run--and that as a result, their agenda seems closer to the environmentalists'. True, the motivations are different: the Greens protect the shore line, while companies protect the bottom line. But the very notion of common ground is something managers dismissed long ago, so maybe they're making progress.

All this hasn't happened overnight, of course, and it's easy to see why. Corporate boards don't yet believe that environmental activism is a sound business strategy. The concept is a bit too new for them to fathom. And the issues are complicated. Environmental problems tend to get lumped together, as if ozone holes and the landfill crisis were more or less the same thing. But the environment is at least as complicated as the economy, and it can't be dealt with all in one piece any more than a single policy can both stabilize global interest rates and increase market share for Mazda Miatas.

TIMES CHANGE. IF YOU READ THE NEW MCDONALD'S ADS, YOU WOULD THINK THEY WERE A GIANT RECYCLER THAT JUST HAPPENED TO SELL HAMBURGERS AND FRENCH FRIES.

As they strive to clean up, companies need to recognize the two types of pollution they produce. The first occurs when something goes wrong—when some waste turns out to kill fish, when some chemical happens to trigger birth defects, when someone builds an oil tanker with one hull instead of two and it runs aground and all of a sudden the Alaskan brown bear is the Alaskan black bear and dead to boot. It's a kind of pollution most of us are used to thinking about because we can see it and its effects. If you own a factory, chances are you belch out something in this category.

This assault on the environment will disappear, I think, more quickly in the next decade than it has in the past. It's technically possible to clean up these wastes: You put a new filter on the smokestack, develop a new processing technique, maybe sacrifice a product line. And it will save you money. I'm not entrepreneur enough to know how much money there is to be made eliminating these messes, but I'm politically astute enough to guess that there's an immense amount to be lost ignoring them. And not just money. The next generation of Milkens and Boeskys—the next generation of people draping overcoats over their handcuffs—will have nothing to do with junk bonds. They'll have to do with *junk*, with carcinogens seeping into the air.

But there's another type of pollution that's more worrisome, that seems to have escaped the grasp of managers thus far. It results not from some small defect but simply from the basic operations of our industrial society. This type will be infinitely harder to fix, for its benefits are closely tied to its problems.

Consider packaging. Having spent a century convincing consumers that everything must be mummified in as many plastic, glass, and paper sarcophagi as possible, we now need to undo all that work. People won't go to jail for shrink-wrapping everything in sight, but they will face increasing economic troubles. Confronted with a garbage crisis, we will soon be taxing the hell out of unnecessary containers. The very notion of convenience, which is at the bottom of innumerable product-line extensions and advertising campaigns, may have to shift dramatically to accommodate these new realities.

The same with energy waste. Before the current crisis in the Middle East, the price of oil was lower in real dollars than it was before the last OPEC embargo; thus thriftiness has declined. The availability of cheap energy turned American businesses into snorting, grunting fossil-fuel hogs. So—astoundingly—even though conservation might now undercut Saddam Hussein's economic health, it's not a weapon we're prepared to wield. Case in point: American companies, anticipating expansion, have tended to buy larger motors than they need; however, large motors are inefficient if they run at less than their optimal speed. According to the World Resources Institute, if every industrial motor in the United States were equipped with off-the-shelf speed-control technology, our total electricity consumption would fall by 7 percent.

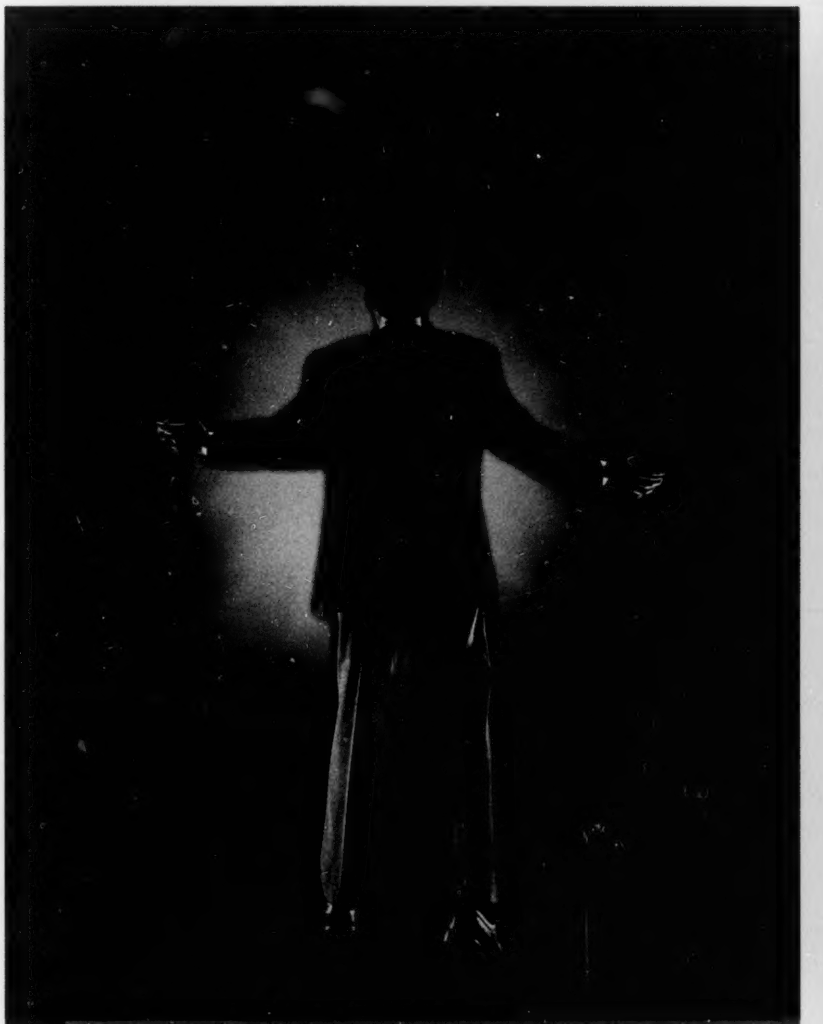
Americans (and therefore the craven politicians they elect) are less and less keen on the degradation that comes with fossil-fuel intoxication: acid rain, smog, offshore drilling. And in an era when revenues must be raised, it is only a matter of years, and probably not very many, before stiff taxes are placed on fossil fuels of every kind in order to slow their consumption. Some European nations have already begun unilateral cutbacks; their companies will undoubtedly become world leaders in the next stages of conservation technology and energy supply. But any policy designed to wean your company off cheap energy will pay dividends soon.

And there are other benefits for the enlightened businessmen, as well as other pitfalls for the troglodytes who think it's all a passing fad. The green consumer movement, for instance, is still in its infancy. So it's early enough to begin an earnest dialogue and see tangible results. For a few months companies could fool shoppers with ersatz products—"biodegradable" garbage bags that didn't, and so on—but the grace period is over. Consumers are gaining steadily in knowledge and insight. Soon it will be not just the products that buyers scrutinize but the containers they come in and the corporate policies that produce them. "Dolphin-safe" tuna and "rain-forest friendly" beef are harbingers of what's ahead, especially for environmental consumers with high incomes.

One final point: More often that not, you will learn about your company's environmental record from people who seem like your enemies. But it's probably smarter to think of them as antibodies, pointing out the infections in your system. Exxon executives wish they had listened and put double hulls on their tankers before coating Prince William Sound.

Listen to the environmentalists—even the loud, radical, unreasonable ones. It's true they do not always understand the "realities" of business, the "immutable laws" of economics. But those realities, those immutable laws, have held sway for only a few hundred years, and only because they have not run into other realities. New realities—the reality of coal smoke's acid freight, of the ozone layer's fragility—are suddenly asserting themselves, and the environmentalists are the ones who know enough to sound the warning. What they have to say may not be comforting, but no one ever succeeded in business by listening to just the good news.

Bill McKibben is the author of The End of Nature, *which was just published in paperback by Anchor Books.*



FAXPOLL FEEDBACK

'Companies cannot continue to make a profit at the expense of the environment.'

Wishful Thinking

Not all readers are cynics. Among the most hopeful statements we've come across:

- 'Drug testing gives me a safe place to work.'
- 'Ethics is simply good business in the long run.'
- 'A CEO's compensation should never exceed 20 times the lowest-paid employee's salary.'

PHOTOGRAPH BY MICHAEL LLEWELLYN

HEALTH CARE: Business forgets it created the mess. Now it must own up to its mistakes and help find a cure.

By Uwe Reinhardt

IT'S LIKE STARING INTO THE ABYSS: NOTHING ELSE FILLS executives with so much dread and powerlessness.

I'm referring to the sickening spiral of health-care costs. This year, national expenditures will reach about $650 billion—11.1 percent of our GNP—up from $250 billion in 1980. Corporate America will pick up about a third of that colossal tab, the rest paid by government (42 percent) and patients out of pocket (22 percent).

Who's to blame for the uncontrollable costs? Many point the finger at physicians, hospitals, insurers, and malpractice lawyers. Then there's the government. It's to blame because it has created an entitlements mentality among the aged and the poor and now is unwilling to pay the price for that policy, right?

Wrong. Part of the blame must be laid at the feet of corporate executives, for they are the chief architects of the health-care systems that beget unmanageable costs.

Sound farfetched? The private, job-tied, employer-paid health insurance that remains the cornerstone of America's health system was not put there by our government. It was created by business during World War II to evade government-imposed limits on wages. After the war, this insurance system was made ever more generous in an annual pas de deux between corporate and labor leaders. Both fought for tax preferences granted this new form of compensation, as did an obliging health-insurance industry. But worst of all, business and labor leaders nourished among employees a now deeply entrenched sense of entitlement that has no counterpart among Medicare and Medicaid recipients nor, indeed, anywhere else in the world.

Medicare is actually a fairly lean insurance program, leaving the aged to cover fully one-third of their health spending. Less than half of the officially poor are enrolled in Medicaid, and they certainly do not expect free choice among providers.

By the early 1980s, American workers were taking for granted such entitlements as full first-dollar coverage for instant access to whatever doctor and hospital and whatever high-cost, high-tech medicine an employee might choose, with little or no control over fees and very little cost sharing on the part of employees. Don't blame the government for kindling these expensive tastes and expectations. Blame those who were present at the creation: America's business and labor leaders.

Granted, many executives have tried to stuff back into the bottle the entitlements genie they had previously unleashed. Witness their attempts to increase deductibles, make employees share in health-insurance premiums, and limit the choice of providers through health maintenance organizations and preferred provider organizations. But most of these cost-containment measures have failed for two reasons.

First, the efforts to retrench were timid and took place in a tightening labor market. Second is a policy based on the misapprehension that health care is a free market and that you can control costs by letting the forces of supply and demand balance each other. But consider how ridiculous this assumption is: If a free market really existed, corporate America (the demand side) could effectively resist cost increases from providers (the supply side). Moreover, in any given year, over 70 percent of all health-care expenses come from only 10 percent of the population. These people and their kin are likely to be much too sick and worried to exercise any control over doctors and hospitals.

If American business is serious about controlling costs, it must help change the health-care system from one that is primarily supply-driven to one in which the demand side has more effective control over the range of services delivered to patients and the price of those services.

How? Most industrialized democracies acquired added market power on the demand side through national health insurance. In these systems, either the government or tightly regulated associations of private insurance carriers negotiate with associations of doctors and hospitals on the prices for services. In Canada, the government of each province acts as the third-party payer. In West Germany, numerous privately managed funds join together to negotiate with doctors and hospitals to establish an all-payer system—in which all employers in a particular market area pay providers the same fees for the same procedures.

It's unlikely that the United States will soon introduce a national health-insurance system of the Canadian variety. Unlike Canada, we have a political process that doesn't permit the ruling party to ram through legislation virtually unmodified. And it's doubtful that this country would permit some $400 billion in additional funds to flow through the books of a public sector for whom the American people have such low respect.

An alternative might be to combine features of the West German approach to price determination with the uniquely American concept of managed care—controls on utilization based on

FAXPOLL FEEDBACK

'The government
just going to hav
to step in and
socialize the wh
damn health-car
system.'

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Answering the Call

Most of you shrugged at our FaxPoll on illiteracy. But one respondent took the subject seriously, suggesting: 'Start with your own family. Turn off the TV, and let the kids see you reading for a change. Get on the textbook committee of your local school, and resist all efforts to neutralize the subject matter.'

> *'If middle managers can shoulder the responsibility and be successful, they should be able to share in the spoils of business.'*

"Burden

careful clinical research on the effectiveness of medical procedures. A major clinical-research effort of this nature has recently been launched by the U.S. Congress. Corporate America could use its political clout to help move our fragmented private-insurance system toward an all-payer approach resembling West Germany's.

But political activism by corporate America may not even be necessary. In all likelihood, our health system will lumber toward this kind of solution in what might be called a "health policy keister-backward," with the government acting as a stern concertmaster and executives mainly as bewildered bystanders. Let me paint a probable scenario for the 1990s.

Besieged by taxpayers and a list of long-neglected priorities, including deficit reduction and repairs to the nation's rotting infrastructure, the government will continue to shift health-care costs to the private sector. America's corporate elite will continue to reel and use whatever muscle it has to pass along costs to the smallest and weakest segment of the private sector—the entrepreneur on Main Street.

Eventually that pin-the-tail-on-the-donkey game will trigger the predictable reaction among entrepreneurs. Saddled with premium increases that have recently hovered between 20 and 30 percent a year, they will likely cancel whatever health-insurance they now offer their employees and thereby foist a troubling dilemma on the government: Either raise taxes to fold the uninsured into an expanded Medicaid program or mandate that all employers in America provide their employees with health insurance.

My bet is on this last strategy. But if entrepreneurs are ordered to provide health insurance, they will undoubtedly insist on substantial added regulation of the private health-insurance industry into whose arms they will be driven.

Small business will demand an all-payer system, much like West Germany's, that will be negotiated between regional associations of payers and counterpart groups of providers. It will be a novel experience for Americans, but one for which there exists a rich and long experience in all other industrialized countries. Add to this the nation's further development of managed care, and you arrive in rough-and-ready fashion at a viable American alternative to the Canadian approach.

Sadly, none of these developments will come about very soon—or by virtue of strategic public policy. The approach will be more of a tortuous lurching toward the only avenue eventually left in sight. Ironically, one of the major stumbling blocks in this necessary trek will be America's corporate elite as it clings to the mistaken notion that health care is just another private consumption good best left to traditional market forces. Until these executives learn otherwise—as they invariably will—our health system will be in turmoil because of a problem that is largely of business's own making.

Uwe E. Reinhardt is James Madison Professor of Political Economy at Princeton University.

Photograph by Patty McDonough

DESPAIR

FAXPOLL FEEDBACK

'TESTING ONLY CAUSES USERS TO BECOME MORE DEVIOUS.'

81% gripe that they're woefully underpaid

72% fear an environmental crisis in need of immediate action

59% see no hope of a shift from deal making to company building

22% concede there's drug use among their top management

'Raiders are mere pesky gnats compared with the predators roaming the global feeding range.'

DRUGS: No, this boss insists, you don't have to test employees to keep the workplace free of drug abusers.

Bank of America is one of the big-name holdouts against drug testing. John Cammidge, vice president and director of employee relations at the San Francisco-based bank, explains:

We do not favor random testing, but we could foresee situations where preemployment testing and testing in certain situations would be the right thing to do. We are comfortable with our substance-abuse policy. But we are not currently comfortable with the idea of taking the next 10 employees and arbitrarily saying, Hey, we're going to test you.

Legal considerations have an important influence on our drug policy. It's reasonably safe to assume that we could test prospective employees for drugs because of recent decisions taken by the courts in California. These support preemployment testing that does not unreasonably intrude into individual privacy. But the issue of random testing of employees has not been fully dealt with by the California courts. Also, San Francisco has an ordinance that allows drug testing of people already on the payroll only where there is good cause.

The marketplace in California is another consideration. Testing is not currently the norm in the California banking industry, and so there is no market pressure on us to test.

We also have a clear policy on alcohol and drugs in the workplace. Employees are prohibited from using, possessing, or being under the influence of drugs or alcohol on the job. If they violate the policy, we may take disciplinary action—including termination. We also reserve the right to search and use surveillance if we suspect employees are carrying drugs or for other reasons. There have been very few searches. We expect managers to manage to the policy and to get employees who need help into our recovery programs.

Nevertheless, our policy is under continuous review. If testing became more commonplace among the other banks, if business or safety factors changed, or if the California legal situation changed, we would seriously reconsider our policy.

PHOTOGRAPH BY PAUL ELLEDGE

YES TO DRUG TESTS: Wimps won't win the war against substance use on the job. Companies that resist compulsory testing will end up as the employers of last resort. By Peter B. Bensinger

THIS IS HOW FAR WE HAVE COME: ANHEUSER-BUSCH no longer serves beer during workers' breaks at its breweries. The company and its unions decided four years ago that a nip in the afternoon might tend to make workers ignore safety rules. Instead, Anheuser-Busch now gives each worker two cases of beer each month—to be drunk at home. Niagara Mohawk Power Corporation has agreements with its unions prohibiting the drinking of alcoholic beverages at mealtimes or anytime during the workday, even off company property.

Other companies have not reacted in so dramatic a fashion, but most of the nation's biggest industrial concerns have joined the crusade to clear alcohol and illegal drugs out of the workplace. More than 90 percent of America's largest employers now have drug programs of some type, and more than 60 percent of them test their employees for drug use. As the drug menace seems to worsen daily, businesses obviously are becoming more aware of the impact it has on everything from plant safety to worker productivity to medical benefits.

This is how far we will go: States will deny workmen's-compensation claims for employees hurt on the job because they were drinking or taking drugs. Drug abusers may also lose their unemployment benefits.

But this is how far we haven't come: Major banks such as Bank of America in San Francisco refuse to adopt preemployment drug-testing programs. Hotel chains such as Hilton, Hyatt, and Marriott remain uncommitted, as does Arthur Andersen, one of the nation's leading accounting firms. The AFL-CIO supports drug-abuse programs generally but still resists random testing of workers. Notables such as economist Milton Friedman and former Secretary of State George Shultz even advocate the legalization of drugs. Obviously neither Friedman nor Shultz has tried to run an assembly line manned by coke heads.

HOW ELSE DO COMPANIES MANAGE TO DELUDE THEMSELVES? BY IMAGINING THAT AN EMPLOYEE'S FIRST LOYALTY IS TO HIS FIRM. SEE PAGE 85.

It's hard to fathom why so many companies still drag their feet. Banks certainly are aware of the menace: The government is reminding them constantly that the large cash deposits coming their way are likely to be drug money. But the institutions remain skeptical that drug tests are needed. Hotel companies are labor-intensive and may worry about the cost involved in testing all their workers. They should, however, consider the long-term cost-effectiveness of rooting out drug abusers.

Unfortunately, business has always fought the drug war from far behind the front lines. Washington's policies cannot be described as preemptive, but two agencies were far ahead of the corporate community in acknowledging the danger of drugs in the workplace.

I estimate that in 1981 less than 20 percent of major employers in this country had clear policies on illegal drugs and alcohol. Top management was basically unaware and unconcerned. Then, in 1982, the National Transportation Safety Board issued a report documenting high levels of drug and alcohol use by railroad employees who had been involved in accidents. It asked the Federal Railway Administration to issue tougher regulations. The same year, the Nuclear Regulatory Commission proposed a rule that would require all utilities running nuclear power plants to prove that their work forces were drug free. Today drug testing is a fact of life for anyone applying for a job in the utility industry. The Department of Transportation issued drug and alcohol regulations in 1988, in an attempt to reduce train, plane, and bus crashes. That year, Congress passed the Drug-Free Workplace Act, requiring any company that does $25,000 in business with the government to show that it has a policy for keeping drugs off the premises. This law is now being replicated at the state level.

The courts have supported these efforts, ruling that it is reasonable for companies to reject employees who use drugs, and have generally upheld preemployment testing. The Supreme Court has ruled that the Department of Transportation can require postaccident drug testing of railroad employees in safety-sensitive jobs even though they are not specifically suspected of drug use. These rulings reflect the severity of the drug problem and the importance of a drug-free workplace in safety-sensitive situations.

With the government, business, and the law clamping down on drug abuse, it is strange that some prominent citizens want to solve the problem by legalizing drugs. Legalization would only lead to greater drug use in the workplace and everywhere else. If we legalized the sale of drugs to adults, two things would happen. Drug users wouldn't be satisfied with the low-potency drugs the government would allow but would continue to seek high-kick merchandise from illegal dealers. At the same time, the drug gangs would target more of their selling efforts toward teenagers and children.

Proponents of legal drugs say their proposal would reduce crime. It is true that some people steal to get drug money. But even well-heeled addicts commit more crimes; cocaine and amphetamines, especially, make people more aggressive and therefore more prone to crime and to causing major accidents.

Historians tell us drug abuse is cyclical and that we may be at the beginning of a downward wave of drug availability in America. But private business cannot count on that yet. Even if drug use in the office and factory declines here, it will increase overseas. Companies in Europe and Japan—including, of course, American operations in those areas—will soon be grappling with the same problem that so bedevils managers in the United States. Greater affluence overseas will give people enough money to catch what used to be considered an "American disease." Imports of cocaine into Spain, which has decriminalized marijuana, are now at the level they were in the U.S. 10 years ago and exceed cocaine imports for all the rest of Western Europe. Drug cartels are already establishing other markets where law-enforcement agencies have not yet geared up to combat drugs on a large scale.

The spread of drugs overseas will not discourage American companies from taking action, however. In the years ahead, there will be even less tolerance of drugs in the workplace here and abroad. Some headlines you will be reading:

- Unions will accept broadened testing of workers. (They now approve of testing as a condition of employment or for cause.) A philosophic stand against random testing will give way to an economic principle. Union members do not want 90 percent of their medical benefits chewed up by the 5 percent who are drug abusers.
- Executives will drink less at lunch, and more company picnics and retirement dinners will be soft drinks only.
- States will become still less tolerant of drunk drivers. The alcohol tolerance standard will be reduced from 0.1 to 0.04, a level already established by the Department of Transportation.
- Companies will also adopt lower thresholds for drug tests for marijuana and cocaine, making it easier to spot "casual users."
- Companies will continue to use undercover investigations to document cases against abusers—and to document the need for companywide testing.

Yet, there will be corporations that will continue to resist strong antidrug and alcohol policies and drug testing. They will become the employers of last resort for the drug users, and their own safety programs, productivity, and morale will suffer immeasurably.

Peter B. Bensinger is president of Bensinger, DuPont & Associates, a consulting firm that deals with drug abuse in the workplace.

FAXPOLL FEEDBACK

'SEND THE RIGHT MESSAGE: TEST EVERYONE FROM THE CEO DOWN TO THE JANITOR.'

Sticking to Their Guns

They're [illegible] but [illegible] [illegible] of a [illegible] group of [illegible] folks [illegible] at companies that pollute. Seven in 10 said the environment is suffering a crisis; 80% thought violators should face stiff fines or even prison sentences.

'It's time to go after [illegible] [illegible] and major [illegible],' one of them declared.

'Lying is the only way to beat the other bastards.'

75% [illegible] companies have a [illegible] obligation to [illegible] of layoffs

23% won't work for a Japanese boss

5% maintain they'd rather go to court than buy antipollution devices

PHOTOGRAPH BY DON GLENTZER

EDUCATION: You know the type. Not dumb, but certainly no self-starter. Hard work? Team spirit? This employee's never heard of them. There's only one way to motivate underachievers: Give them a share of the American dream. By Ben Stein

IT'S A PROBLEM BY NOW BITTERLY familiar to the American employer: a certain kind of employee who is not necessarily stupid or devoid of ability but so unmotivated, so thoroughly alienated from the notion of production as to constitute a major daily migraine.

Undereducation is part of the issue. This worker needs to be trained at the most basic level. Yet, of course, he resists learning. He not only lacks basic skills at his job but is often so out of the loop of human conduct that he alienates customers and fellow workers, distracts fellow employees, and consumes far more of his employer's time and money than he replaces by his work. This employee epitomizes "antiproductivity," the creation of negative utility by someone who is actually consuming the income of your company. In sum, he is a guy you end up paying to wreck your life and the health of your business.

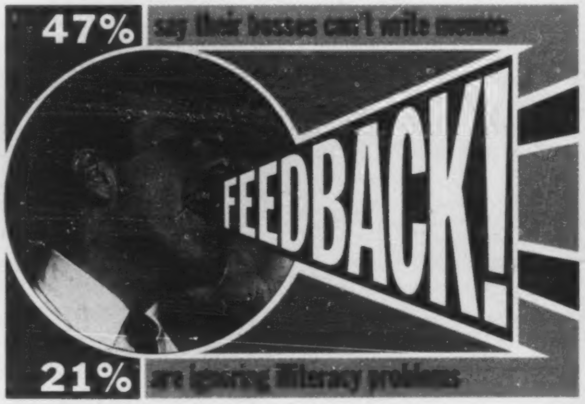
This kind of employee is not only a problem to himself and his employer; he is a national menace too. In an America besieged by desperate labor shortages in many areas, workers who have the raw material to do worthwhile, productive labor but lack the right attitude to get it done are a badly wasted resource.

The solution, you might imagine, would require some kind of national plan for training or motivation. It doesn't. Moreover, a wealth of data show that in the last 30 years, large-scale training and retraining programs have mostly been failures—except to the training schools that pocket taxpayer loot for rubber-stamping diplomas for people who more often than not continue to be problems.

Don't waste your money on education. Instead, try offering these underachievers the chance to earn a piece of the American dream.

Sound ridiculous? Then consider the case of a young woman who, until recently, was unmotivatable. Turned around by her work environment, this employee now seeks out knowledge to do her job better, adding to her productivity and human capital.

Meet Elspeth Holt, 28, from a middle-class family in Los Angeles. A college dropout after two years, she spent the next six years bouncing from job to job, rarely staying at any position for more than a few months. As a secretary, as a receptionist, as a salesgirl at Ann Taylor, she would start each job with enthusiasm. But within days, she would pick fights with the people around her. She would find the work boring. She would complain about the pay and the hours. Then she would start leaving work early and taking long periods of sick leave. Invariably, she would either quit or be fired, often after alienating clients or other people at the firm.


47%
say their bosses can't write memos
FEEDBACK!
21%
are ignoring illiteracy problems

Dissatisfaction with her work, with herself, with every major aspect of her life, turned her into a highly resistant, sullen member of the labor force.

Ironically, she was unquestionably intelligent, liked to learn, and had high ambitions. A number of invisible iron curtains seemed to separate her goals from what she could get out of her jobs. The keen frustration of butting against those barriers destroyed her as a worker and cost her employers time and money.

Salvation came in the form of an offer from a completely different kind of job. Through a distant family member who had been primed by Elspeth's mother—who was sick of supporting her emotionally and financially—Elspeth was hired as a broker of clerical and secretarial personnel at a headhunter specializing in pink-collar labor.

Her job paid practically no salary. Her take would be based almost entirely on commissions either for workers she placed or for employers she lined up as clients who then hired her firm's placements. She would have to make a certain number of placements each month or face probation and, eventually, termination.

But if she succeeded and placed a number of applicants, her pay would be far higher than ever before. Compensation wouldn't go up in $2 increments or yearly bumps of 8 percent. She had a shot at making $50,000 her first year—and more than double that amount within two years if she built an ever-growing base of clients.

Her work environment also changed

dramatically. No longer employed in an office or on a store floor where many low-wage people served a few high-wage earners, Elspeth now worked in a room with peers. Every salesperson in the placement firm got the same percentage commission and, by dint of hard work and luck, could make as much as anybody in the room—or more. Awards went out to the person who brought in the most business each week. Put another way, the prize of esteem went to the employee who added the most value for the employer.

There has been an astonishing change in the quality of Elspeth's work, as well as in her attitude about working.

A WOMAN WHO COULD RARELY drag herself to work before 10 a.m. now usually shows up before 8. Once she lived to take long expense-account lunches at elegant restaurants with her friends; these days she packs a bag lunch and eats alone at her desk. Elspeth has wangled a set of keys to the office building so that she can stay as late as she wants. She is often on the phone during dinner and as late as midnight, advising applicants how to dress and what to say at job interviews.

Elspeth, who often did not even know what business her employers were in, now spends weekends studying the annual reports of client employers and reading business journals about areas of expected growth in Los Angeles to identify new clients. This same woman, who once could not be bothered to learn how to use a word processor, now makes it a point to acquire the basics of every software program her applicants are expected to use on the job.

TODAY'S LESSON: THERE'S NOTHING LIKE THE WHIFF OF MONEY TO WAKE UP THE SLEEPIEST AND LEAST MOTIVATED EMPLOYEE.

Most revealing of all, a woman who thought she lived at the margins of the system now feels entirely a part of it, committed to her job, to her employer, to the society in general. This, you might say, is a miracle in action for her and her employer. She earned over $50,000 in her first year. Now in her second year, she is frequently the leading salesperson of the month and gives seminars to her clients about how to keep and motivate their new workers. She has traded up from a Hyundai to a Cabriolet, a perfect physical correlative for her jump in self-esteem and morale, as well as income and productivity.

Of course, there are special circumstances in Elspeth's job, as in every position. But the principles of motivation are universal.

First and most obvious, Elspeth saw for the first time a direct link between her new work and her income. It is a connection made easily by the cabdriver, the street vendor, and the solo practitioner lawyer, but a point often lost to the employee in a large corporation. Once Elspeth realized that her performance directly and remorselessly governed her pay, she—like any sane person—acted on it.

Second, she recognized an opportunity for a noticeably better life-style than she was accustomed to. The worker born into a family of Oldsmobiles will not be greatly moved by the chance to own a Buick, much less a Chevrolet. But to have a shot at a BMW. . . there is motivation indeed.

Third, Elspeth was placed in a work milieu in which production was the norm. Just as alcoholics and drug addicts can be moved to sobriety by being around people who see sobriety as the norm, so Elspeth was moved to imitate the norms around her—hard work, results, and a desire to win.

Fourth, her job reinforced her self-esteem. Talking on the phone and manipulating people both played to her skills; her abilities and duties meshed and built upon one another. In turn, she derived a steadily growing sense of confidence and pride in her work, which spiraled into the kind of deep confidence that moves an employee to prove to herself how good she is on a continuing basis.

Fifth, Elspeth at last found a place where her horizons were unlimited. As a secretary at an aviation leasing company, her natural boundary was secretary. As a receptionist at an ad agency, she could not hope to rise above receptionist. But at the placement firm, her normal run of work and success would take her as high as the firm would allow—and that was high indeed in terms of remuneration, responsibility, and prestige. This gave her a feeling that it was highly worthwhile to make friends and to develop skills and contacts. The fact that she could profit handsomely by making it work this time, that gradual increments in her human capital would pay off steadily and, well, make her view the placement agency as a lifetime gig.

Finally, Elspeth responded well to the idealistic content of her job. After all, she was helping unemployed or unhappily employed people find good jobs. This was a fact she corroborated time and again when she did follow-up work on her applicants. The conviction that she was improving their lives spurred her to work even harder for herself.

Obviously, not every employer can duplicate all aspects of Elspeth's experience. It would be hard for a factory dependent on very low wage labor, for example, to consider paying standout performers six-figure salaries. But such plants could certainly reward the best

PHOTOGRAPH BY MANNY MILLAN/SPORTS ILLUSTRATED

FAXPOLL FEEDBACK

'DAMN RIGHT WE'RE SURROUNDED BY IDIOTS—MOST OF THEM ARE BOSSES.'

A Not-So-Civil War

Seven in 10 respondents at companies with 5,000-plus employees say there's bitter strife at the largest corporations, thanks to frequent layoffs. Despite plenty of warning and generous severance, you fault those in charge for their callousness, poor judgment in choosing the wrong people to ax, and foot-dragging. The solution? 'Better management decisions to prevent future layoffs,' one of you groused.

91% charge that American CEOs make too much money

74% complain women shouldn't have to behave like men to get ahead

62% gripe that we're letting Japan take control of our economy

'Shoot every drop-out in sight' is how one reader would solve illiteracy at the workplace.

workers by offering them more generous compensation than poor performers. Even unionized shops can almost always make incentive payments.

True, it is not easy in larger, more segmented workplaces to offer that seamless possibility of advancement to the high levels of pay that Elspeth has. But most employers can still ease the borders among different levels of work for diligent employees. Law firms can offer incentives for secretaries to study law at night and eventually practice. Why can't manufacturing companies do the same?

The point is not to duplicate what Elspeth does at her placement firm but to grasp what motivated her to become such a hard and productive worker. It is an ancient lesson drawn from the history of American immigrants. They knew that they had to work or they would go hungry, since there was no welfare. They saw that the prevailing ethos of America was work and more work. They saw that in America, unlike in the Old World, there were no limits to where they could go. They saw that America, to paraphrase de Tocqueville, was great precisely because it was good, a place where idealism meant something, and this gave them courage as well.

Americans became the most prosperous people on earth mostly because of the well-organized, self-motivated work of her immigrants. Over the generations, that spirit was lost in accustomed affluence and a confused notion about what work is supposed to be.

But Elspeth rediscovered what her ancestors knew so many years ago, what every undocumentado crossing from Mexico and every Thai coming through customs at LAX knows. To the extent that this lesson can be humanely taught to native-born Americans, employers may yet be able to instill pride and good work in them, and the unmotivatable employee may one day become extinct.

Ben Stein, an economist and lawyer, writes frequently for BUSINESS MONTH.

POWER: Our hero became CEO at 39. It was good. Then everyone around him became assertive. Now he can't look *his* hero in the eye. By Roy Blount Jr.

THE MAN IN THE NEXT SEAT had eyes the color of money. He looked at me as if he figured I'd been slipped into first class because I had something on the pilot. (Actually, the plane to where I'd been going had been overbooked, and the woman at the gate had asked me whether I'd be willing to fly somewhere else instead, and since I'd recently taken a seminar to improve my negotiating skills, I'd said, Well, okay, but only if she'd upgrade me.) But when I told him my first name, he regarded me differently. And by the time I realized that he thought I'd said I represented an outfit called ROI (an acronym for return on investment), he had finished four martinis and his story.

In high school, Anson Skedmark (for that was his name) was the CEO of his senior class. He'd been elected president, but his first official act was to change the name of the office. He loved the ring of it, CEO. He was determined to be one in business before he was 40.

His father was a curio salesman, door-to-door; his mother, a wet nurse. No one in his family had ever had a desk. In the '60s, when others were running naked with flowers in their hair (not only members of his generation but also his father, who was in many ways not the role model he might have been), Skedmark was wearing a suit. Reading *Winning Through Intimidation*. And learning to smoke large cigars.

It paid off. Three days after he turned 39, he was in fact named chief executive officer of a small marketing enhancement design consulting firm. In three years under Skedmark, its revenues went from $39,500 to $268 million. His clients included COMSAT, the entire implement industry, and the nation of Bolivia. His nine executive assistants stayed on duty at various posts around the clock, in shifts (one of them lived in a Lincoln in Skedmark's driveway), in case he woke up (he slept only four hours a night anyway) feeling like barking instructions to someone who earned in the six figures. His own annual compensation was in the low eight. He married a Liechtensteiner heiress who collected art and raptors and gave him four children. He produced a ghost-written book entitled *Optimizing Excellence*, which was on the *New York Times* best-seller list for 39 weeks. At the 1988 company show, a chorus of 200 performers donned masks of his face to dance a musical tribute. And he had a helipad.

It was good.

But then things began to change. First his banker, T. Charles Divvy, who had made some largehearted real estate loans around the great Southwest, jumped out a window. A limousine window, at a speed of only about 30 miles an hour; but still, in traffic. Divvy was changed.

"The man had vision!" Skedmark exclaimed. "I'd get him on the horn and say, 'Cholly, I need an injection of cash,' and he could see collateral in . . . in a grain of sand! Now he's trying to get me to join Leverageaholics Anonymous!" Skedmark's debt-to-capital ratio, it turned out, was 174 percent, which I guess (I don't know anything about finance myself) is pretty impressive, but only as long as everyone remains largehearted.

IF YOU THINK IT'S GETTING LONELY AT THE TOP, YOU'RE RIGHT. THE MUCKAMUCKS ARE FALLING FASTER THAN REENTRY CAPSULES. DOUBT IT? SEE PAGE 81.

Skedmark's board did not. "I got them appointed!" Skedmark exclaimed. "I worked with them! Every three months I called in a consultant who concluded that they were underpaid, and I did something about it, and every six months I threw in a new table. Bigger. Nicer wood. But that's not enough for them anymore. Now they all want gavels. Well, I'm not giving them gavels!"

Instead he's accepted cutbacks. Had to. His parent firm has been merged with a larger firm that is fighting a hostile takeover effort mounted by a company that Skedmark had thought he owned. It's painful belt-tightening time. Not only has Skedmark had to stop stabling his horse at the office but he's down to three executive assistants, the one in his driveway is down to a Mercury, and none of them makes more than the Vice President of the United States.

And they have attended a seminar in which they learned that yes-men aren't really good for their boss—whatever he may say. "So they've become no-men!" Skedmark cried. "I *like* yes-men."

Revenues for 1990 were projected at $680,000—well up from where they were when Skedmark took over, but well down from where they were at his peak.

Under pressure from his controller, Skedmark accepted the Shiite religion as a client. His own creative department picketed corporate headquarters, and one of his no-men has been leaking confidential information to Salman Rushdie.

His chief operating officer brought in a humor consultant, an edgy Canadian who had given up appearing in comedy clubs because heckling made his eyes water uncontrollably and who recommended jokes for relieving intraoffice stress. When Skedmark asked the COO why the table of organization chart was hanging upside down and several rolls of toilet paper had come flying in through the boardroom window, the COO consulted some notes and said, "You know what you call a fly when you pull his wings off?"

"What!?" Skedmark cried.

"A walk."

Clients who feel that their marketing designs have not in fact been enhanced have found that they can sue. Skedmark has had to take $42 million worth of consultancy liability insurance.

For some reason that he can't quite get straight, Skedmark must meet three times a week with representatives of the Serbo-Croatian community to hear their grievances.

People threw floppy disks at him recently at a workstation closing.

Certain public-sector commitments oblige him to supply 15 buses and as many Port-a-Potties for a Free Neil Bush rally next month in Washington.

He has long since given up large cigars (hardly anyone will tolerate being in the same room with them anymore, even other CEOs), cold turkey. If he'd sought help, the market would have found out about his addiction and his company's stock would have plunged.

"I'm a CEO," he said. "An *American* CEO. And what does it add up to? I never have time anymore to read Clausewitz. I can't remember the last time I had a free moment to pop *Patton* into the VCR. In fact . . . the last time I looked at George C. Scott in that helmet . . . I had to look away. Because I felt that if he knew what I put up with, he would look away from me. There. That's the truth of it. Old MacDonald had a farm. C-eye, E-eye, O."

"Oh, come on," I said. "After all, work isn't everything. Your family life must be a great consolation."

He gave me such a look.

"My wife," he said, "got tired of being traditional and started her own business. Now she wants us to move to Seattle. Because *she* can run *her* business from a houseboat, which she thinks will be good for the children. She studied with a Sufi holy man who convinced her that when you practice 'not being,' everything will fall into place. '*Our* Sufi told you that?' I asked her. She laughed. She said the whole notion of 'our Sufi' or anybody's Sufi was antithetical to Sufism. She went to a competitor's Sufi. She has written a book entitled *Being a CEO in Your Spare Time.*"

"Has it made the best-seller list?"

"Don't you read? It knocked my book out of first place! And I find out the bi—"

He caught himself and glanced guiltily at the flight attendant. "I just had to take an encounter group with all my female employees," he whispered to me. "Every damn . . . blessed one of them. Yattata-yattata-yat . . . Expressing their feelings.

"And I find out the woman . . ." This time he glared at the flight attendant, but sulkily, "used my writer."

"Gosh," I said. "Well, hey. You're in the fast lane. There are bound to be peaks and valleys. Things can't get much worse than this."

"Oh no?" he said. "Just before I boarded this flight, I learned two things.

"One: My father, who was certified insane in 1979 and who cost me half a million dollars to get decertified and set up in some sort of research in 'cyberspace' to get him off my back—my father, who is 64 years old and wears dreadlocks—has developed a 'virtual reality' program that enables any Tom, Dick, and Harry to put on a vest wired to a computer that enables him to feel like a CEO!

"Two: My lawyer makes more than I do."

"Oof," I said. (Though to my ears, frankly, that last bit sounded like part of the human condition.) "That *is* hard to take. It makes you wonder, in a free country, how things could go so wrong."

"There's a flaw in the system," he said. "One deep fundamental flaw."

"What is that?" I asked.

"Insufficient CEO empowerment," he said. " 'Empowerment,' I hear from the women. 'Empowerment,' I hear from the Serbs and the Croats. 'Empowerment' I hear from OSHA. Did you know they've got OSHA cranked up again? The *Republicans!* They've got a new guideline out now—it is psychologically unhealthy to require a marketing enhancement design consulting employee to engage in company practices that do not empower the employee to enhance his or her own self-image. Empowerment, empowerment. But never empowerment for me!"

"What kind of empowerment exactly do you have in mind?" I asked.

He gave me an impatient look, as if he knew that I knew perfectly well what he had in mind, what anybody in his position would have in mind. Those eyes of his turned harder than a deep-depression dollar.

"A chief executive officer," he said, "under our present laws and system of government, is not empowered to execute anyone."

Roy Blount Jr., whose father was a CEO—of an honest savings and loan association—has just published his 10th book and first novel, First Hubby.

A FOOL'S POWER: Just look where charisma got Donald Trump today. CEOs should spend more time developing imagination and sharing the wealth.

By Abraham Zaleznik

JUST HOW IMPORTANT IS CHARACTER to success in business? Truth be told, not very important at all. Power has more to do with your potential ability to move others than with the means by which you alter their behavior.

Now, I know it *seems* as if nice guys always finish last. Just look at today's business heroes. No one of my acquaintance has ever accused Henry Kravis of being overly genial. Donald Trump seems to go out of his way to thumb his nose at commonly accepted morals and manners. As for Frank Lorenzo, it's hard to imagine his inspiring much affection from employees even in his next enterprise. "His enemies shall lick the dust," writes Al Neuharth, quoting Psalms 72:9, in *Confessions of an S.O.B.*, as if total subjugation were the goal of executive power.

How did we reach this low point, where the new cult of power has become a celebration of nastiness? It wasn't too long ago that big corporations sent their up-and-coming executives to "charm school": courses in human relations where managers learned to soften the hand of power, disguise the built-in inequalities of hierarchy, and foster participation and power sharing. The idea was that if you could make employees happy, you might improve their productivity. But corporate raiders in the 1980s effectively buried the image of the nice guy as successful CEO. Kindness became synonymous with weakness. Career-minded MBAs also helped change the American psyche, pushing the notion that to win is to be ruthless.

Nothing could be further from the truth. You can be a nice guy or an SOB and still reach the top, provided you have two things going for you: a business imagination you put to use with single-minded devotion, and comfort in gaining and using power. With these ingredients, despot and pussycat alike will enjoy success and, along the way, become charismatic in the eyes of subordinates, even rivals.

True, charismatic leaders often arouse either intense love or fear, along with certain amounts of respect and envy. But their success is really measured by the degree to which it translates into good fortune for the associates who have cast their lot with such leaders. When investors in Home Depot judge the company's founder, Bernie Marcus, are they concerned about whether he's a gentleman or a bastard? No. Despite the fact that Marcus happens to be an extremely nice guy, they are much more affected by how he has turned each hundred thousand dollars originally invested into many millions.

Wal-Mart executives and employees seldom talk about Sam Walton in terms of character analysis. They do mention his imagination and craftsmanship, which stimulates leadership by example. They talk about his keen perception of consumer buying habits and needs, his ability to lead others in delivering on the promise of value to the consumer, and his infectious enthusiasm for the work he and his associates are doing as mass retailers.

TEST YOUR OWN INSECURITY: WOULD YOU RATHER TAKE A LIMO HOME OR RIDE THE BUS WITH YOUR MAIL-ROOM CLERK?

Character, which is primarily concerned with how people regulate their relationships with others, has very little to do with the quality of leadership or power. Wilhelm Reich, who plowed some new fields in his studies of human development, likened character to a protective armor that buffers one against the painful stimuli that cause anxiety. Put less clinically, a nice guy habituates himself to being nice in order to avoid aggression from others, as well as his own tendency to be aggressive. An SOB, on the other hand, learns to be obnoxious in order to keep people at a distance, fearing closeness and the tender feelings that closeness stimulates.

A person's character is every bit as distinctive as his fingerprints and almost as difficult to change. No matter. If the armor does its job of protecting, it lowers anxiety, allowing people to feel at ease with themselves—whether they are jerks or pushovers—and to express the talent, drive, conviction, and self-confidence that are the real keys to success.

Personally, I prefer plain civility and good manners to extremes of either unctuousness or prickliness in my work associates. There's no reason that decent behavior can't go along with the pursuit of achievement.

Abraham Zaleznik is a psychoanalyst and professor emeritus of the Harvard Business School.

ETHICS: Sure, it's easy to say that you're pure, but just try teaching your employees right from wrong. By Harvey Golub

BUSINESS ETHICS: IT'S NO oxymoron but a phrase that evokes very real challenges tugging at a company every day. You can lay down the clearest guidelines and adopt the most straightforward of mission statements, and people will still make mistakes. Some will misbehave.

At IDS Financial Services, we have rigorous ethical standards that govern everything we do. And we're absolutely serious about living up to them. There is very little *gray* area: Something is either right—or wrong. And because our values are clear, we believe it's easier for our people, from the bottom to the top, to make the right decisions about how this company should operate.

Our code of ethics can be boiled down to this: Clients come first. We put their interest before our own. We have to. In a relationship built on trust, we must have our people work within an ethical framework—particularly since they operate independently.

Consider Long-Term Care, an insurance product we developed last year for senior citizens that pays nursing-home expenses. Seniors represent a large market, but there is always the risk that the client doesn't fully understand what he or she is buying. We set out to ensure that prospective clients fully understood all provisions of the policy and could easily decide whether it was appropriate to their needs. To root out any potential areas of misunderstanding, the company conducted "suitability" studies with groups of senior citizens. We asked them to suggest changes—which included a "home care" benefit as part of the policy and more cost-effective coverage for the average nursing-home stay—and implemented their recommendations.

On occasion, however, we make a seri-

FAXPOLL FEEDBACK

‘SHAME ON A BUSINESS THAT LIES. PROFITS ARE NEVER AS IMPORTANT AS CONSUMER SAFETY.’

Rap Music

Who's to blame for the health-care crisis? Everyone, according to our June FaxPoll:

- **Malpractice lawyers (57%)**
- **Physicians (54%)**
- **Hospitals (46%)**
- **Insurers (38%)**
- **Employees, too (18%)**

69% of you fault management self-interest for the failure to make long-term plans

42% of you point a finger at your own companies for wasting energy

‘The entire system is foul,’ one of you scolded.

ous mistake. An IDS financial planner recently suggested that a client sell a large portfolio of stocks to save on taxes. He encouraged the woman to discuss the matter with her tax attorney before taking action. But she never did, and the omission wasn't discovered until after the sale—which, to everyone's chagrin, generated a capital-gains tax in excess of $50,000. It was the client's ultimate responsibility to seek tax advice; technically, at least, the IDS planner hadn't done anything illegal. But he had misunderstood the tax law and failed to verify the tax issues at the point of sale, and that hurt the client. We felt obliged to get involved and are currently working out an agreement to assume the bulk of the tax liability. When we make a mistake—or fail to perform up to our standards—we try to make it right.

To ensure that things go right, we have ongoing reviews of our sales force by managers. All planners must certify they understand the behavior requirements for dealing with clients. When a major infraction occurs, we get the message out right away. The heads of our field force and compliance department put together a brief program on the problem and how it could have been prevented. It's broadcast live on our own television system and is seen by every IDS office nationwide.

Sadly, clients are sometimes hurt deliberately. During a period of several years,

PHOTOGRAPH BY CHIP SIMONS

three IDS planners in New Jersey sold shares in an unregistered investment syndicate—not associated with IDS—while they were representing IDS. They did this in direct violation of company policy; IDS was not connected to the syndicate in any way. The syndicate turned out to be a pyramid scheme. A state Bureau of Securities suit held the former planners, and not IDS, legally responsible.

Nevertheless, we felt duty-bound to pay out more than $1.2 million to clients who were under the mistaken impression they were buying IDS securities. That's no small piece of change. But we must protect our reputation and do what is right.

Clients come first. Everyone who works for us knows that's how we do business, and the people who succeed in this company all do business with that thought in mind, even when it requires making exceptions to the rule. Example: If a client redeems shares from an IDS mutual fund, he or she must reinvest it within 30 days in order to avoid the sales charge for new investments. That's the policy.

But after Hurricane Hugo, our customer-service people decided to make an exception to that policy. They worked out a process with our offices in South Carolina to allow expedited redemption of fund investments for our clients. Without having to appeal to a higher authority, they changed the policy to allow 90 days for reinvestment. The customer-service people knew that many of the hurricane victims would require extra time to get insurance checks. They based their judgment on one thing: The client comes first.

When employees know their firm's ethical standards, it makes doing business a lot easier at all levels of the company. If a new problem comes up, they don't have to think about a solution from scratch; they already have the framework. If that framework has been tested and tried, employees can make efficient and effective decisions. People may not always make the best choices, but if they make them in the context of values and ethics, the results are likely to be much the same.

No organization can ever run perfectly. But if a company lives by strict ethical standards, its CEO can spend his time unleashing the intellectual and personality power of his people.

Harvey Golub is president and CEO of IDS Financial Services Inc. and vice chairman of American Express Co.

Denial

PHOTOGRAPH BY WILLIAM DUKE

FAXPOLL FEEDBACK

'WHOSE ETHICS? WE DON'T ALL GO TO THE SAME "CHURCH," SO WHY FOLLOW THE SAME STANDARDS?'

Not My Problem

Most of you think companies should make ethics as important a priority as making a buck. But if your jobs were on the line, 40% said, it was occasionally all right to bend the rules a little.

'Cleaning up isn't the duty of public companies—we work for shareholders.'

LAYOFFS: It was Bloody Monday at McDonnell Douglas Corp. Nearly 17,000 workers were told to walk out the door and never come back. What was the carnage like inside the big defense contractor—and what can you learn from the largest one-day layoff in corporate American history?

Nobody likes to talk about corporate life and death. But Michael Becker, McDonnell's vice president of human resources, agreed to discuss the painful events of July 16 with BUSINESS MONTH *contributor Patrick Houston.*

The fact that we were going to have to make layoffs first became apparent to me in the second or third week of June, mainly through conversations with my boss, who is a member of the company's executive council.

The magnitude of the reduction was a surprise to me. Our results had been indicating that we were going to have to consider some drastic action. But I don't think any of us thought we'd have to reduce by 14,000 to 17,000 people.

Let me clarify something. You can talk about the reduction in terms of people. But this was really a reduction of jobs. We looked at every job in the company and classified them into two groups: what was "essential" to keep the business going and what was "important." Then we asked, What are the important but nonessential tasks we can eliminate? So we really reduced a number of jobs. As part of that, people were also reduced.

IF YOU THINK PERSONNEL CUTS ARE PAINLESS FOR THE EXECUTIONER, TRY LOPPING OFF SOME OF YOUR OWN LIMBS.

This reduction has essentially fallen on the nonunion, white-collar work force. Union workers were reduced, but they were nonproduction labor. (We still have airplanes to make.) Among our white-collar employees, people at almost every level and in every position are being affected—financial people, engineers, secretaries, technologists, scientists—everybody. This has affected people who were almost immune to cutbacks in the past.

For the most part, the actual decisions about who would stay and who would go were made at the middle-management level, with top-management oversight. Generally, we thought, Okay, what are the things we can eliminate and what are the things we must do? After we decided that, we asked, Who are the people best suited to do the work that's left?

In assessing people, we considered all kinds of criteria: their ability, demonstrated skills, record of performance and discipline, experience, interpersonal skills, job knowledge. To some degree, we thought about length of service. We didn't use a seniority system, but how long people have been here is obviously a consideration. There was no hard-and-fast formula applied; we relied on best-educated management decisions.

McDonnell Douglas is made up of a number of operating companies. The role of my staff was to coordinate human-resources activities in each of our operating units. In a corporation with 130,000 people, you need a degree of consistency.

When it became apparent that this reduction was going to be reality, the heads of human resources in each of the component companies—as well as representatives from external relations, communications, benefits, and the legal department—would sit in on conference calls. Day by day we would talk for 15 minutes, sometimes for hours, about the ways we could help the company and the people who had to leave. This networking allowed us to share best practices and replicate them without reinventing the wheel.

In some areas, we would work policy decisions, such as the mechanics of when people are notified. Where we had major impacts on large communities, we gave longer notice than we did where we had only a few people. But generally speaking, people are getting 60 days' notice, without additional severance pay.

As soon as someone received notice about being let go, he was given an appointment at a career-counseling and outplacement center. These people were briefed by the company about all the services that would be available to them. We talked to them to make sure they understood the benefits they were entitled to as part of their separation.

We had representatives from state, local, and county governments acquaint people with some of the services these agencies provide. We had the Consumer Credit Corp. come in and talk about how they might consider handling their finances. We are working with the Internal Revenue Service to give people briefings about their options in dealing with lump-sum savings-plan payments.

We've made computers available to people who want to work on their own résumés or sharpen their computer skills. We're providing classes for people about how to behave in interviews. We're holding several job fairs, with more than 115 companies signed up in St. Louis alone. We've talked to other companies in our industry, such as Boeing, inviting them to come and talk to people who are available. We have an advertising campaign aimed at local communities, discussing the availability of our people and the quality of their skills.

Among those who remain, trust has been bruised. Still, in talking to employees—even people affected by the layoffs—we've found the vast majority really think something like this is necessary for the greater good of the company.

How do I feel about being involved in a reduction of this magnitude? That is the kind of question I'm never comfortable with. I think of the news media when they're interviewing the husband and wife standing in front of their burning home and asking, How do you feel about your house burning to the ground?

You have feelings about the business itself. You know, I've spent 18 years of my life here at McDonnell Douglas. This is a business I believe in, that I'm part of. It's very much a family kind of thing. So when you go through it, it's very tough on you mentally and physically. There's an awful lot of trauma involved in seeing people you know who are going through separation. I've personally had to eliminate 30 percent of my staff, which amounted to 10 people. It all comes very close to home.

During these times, there's more work that falls on everyone. You wind up doing more with less. You work longer hours and probably during the weekend.

There's also that feeling of guilt. Anybody who's left with a job—whether it's me or others—gets what I call a "survivor complex." At first you feel, Wow, it's over and I'm safe. Then you think, Boy, there but for the grace of whatever goes me. And then you realize those people without jobs have mortgages to pay and children to educate.

Living in St. Louis, you can't read a paper, you can't turn on the news, you can't even go to a ball game with your kids without talking to someone from McDonnell Douglas. We're the largest employer in the community, the largest employer in the state.

Somebody who has been affected by the reduction is probably skeptical that I can really empathize. But I've been involved with it enough to know this is the kind of thing you don't like to do. As John McDonnell, our chairman, said when he was up in front of the press after announcing the reduction, "This is not the fun part of business."

FAXPOLL FEEDBACK

LAYOFFS: What if Frank Lorenzo didn't really resign from Continental but was given the ax by the board?

By Joe Queenan

AS THE WORLD'S PREMIER HUMAN-RESOURCES OUT-placement specialist, I am often asked, "What was your toughest assignment?" Furloughing those 4,300 teachers from Drive 'n' Thrive, that chain of mobile nursery schools that closed in 1986? Telling the entire population of Youngstown, Ohio, that the glory days were over and weren't ever coming back? Helping Walter Mondale find part-time work after his failed 1984 presidential bid?

No, I tell them, no. As difficult as all those assignments were, my toughest job ever was persuading Frank Lorenzo, chairman of Continental Airlines Holdings Inc. and former head of its subsidiary, Eastern Airlines, that it was time to pack up his belongings and clear out his office.

Now, I know what you've read in the press lately. Some nonsense about Lorenzo's resigning of his own free will and walking off with $30.5 million, not to mention a severance package equal to about one quarter's worth of losses at Continental. Don't you believe it. The real story is that, once Eastern was taken away from him, he was—how shall I say?—airbrushed out of Continental.

I got the call on a Tuesday, a sultry afternoon in early August. My boss at Rapid Redeployment had received an urgent message earlier in the day from Continental's board. After the federal bankruptcy judge had snatched Eastern away from Lorenzo, the board was knocking itself out, wondering whether the guy still had any juice left in him. In fact, they wanted Lorenzo out. Fast. The problem: After they'd notified him that he was through, the takeover specialist simply refused to go. Hunkering down in his penthouse suite with a suitcase full of sandwiches and a pile of 10-Ks, Lorenzo made it clear to everybody that while Eastern was gone, Continental was still his airline, and he was damned if he was going to leave.

That's where I came in. A veteran diplomat with a degree in rhetoric from the University of Milan, I'd had plenty of experience with this sort of thing. Mostly, you needed to talk these guys down, gradually make them see they were fighting a lost cause. Pulling it off wasn't always easy, but that's what they pay me for.

I knew Lorenzo was a marathoner, so I decided to go that route. I phoned him, explained who I was, asked if he'd agree to come downstairs for a 10-K run. He stalled at first, but when I agreed to put some equity into his next acquisition—my company lets me write off up to $25,000 of this sort of stuff—he gave in. Decked out in our Nike finery, we took off down the track through the woods in suburban Washington.

"Let me be frank, Frank," I began. "Continental needs you out of there; they need you out of there pronto. But it doesn't have to be purely one-way. There can be some give-and-take. The office, for example..."

"I need the office to make phone calls," Lorenzo explained. "That pension fund—$1 billion and counting—has put me so far underwater that MCI has shut off my phones down in Texas. I make a lot of long-distance calls—France, Iowa—so I need access to a phone at all hours of the day or night."

"Hey, no big deal," I replied as we jogged apace. "We can set you up with your own office: phones, copying machines, secretaries—"

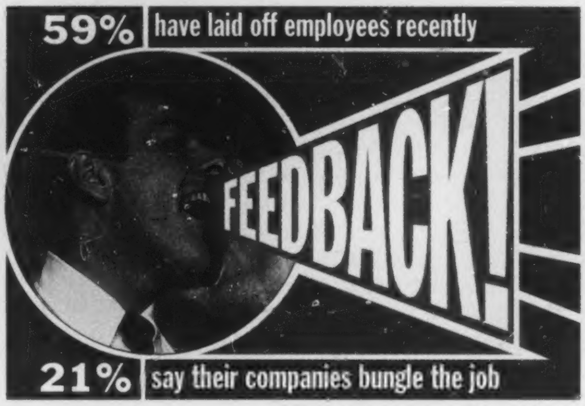
"Fax?"

"Fax, too. Whatever you need, big fella. Hey, look, Continental's not trying to be unreasonable. It's just, well, hell, Frank, there have been hard feelings."

Lorenzo was in amazing shape, chugging along with no sign that the whole Eastern fiasco had taken its toll.

OTOGRAPH BY ERNST HAAS/MAGNUM

"I know what you're saying about hard feelings, Jack," Lorenzo said. "That's just the problem. I may be job hunting soon, and even though my résumé looks good, I don't really have anyone at Continental I can use as a reference. And at Eastern, they'd be happy to sign my death warrant. I'm dreading that moment when the personnel director points to the line on the application that reads, 'Reason for Leaving Last Job.' "


59% have laid off employees recently
FEEDBACK!
21% say their companies bungle the job

"Say the company went bankrupt," I fired back. "Tell the truth: Eastern did go bankrupt." I loped along at a steady pace for another 50 yards. "Just don't say it went bankrupt because of you."

He thought about it, cruising along, head down. "And the job references?"

"We can work something out, Frank. The board wants you out of there, so if you'll agree to pack up and go quietly, I'm sure we can find some delicate way to phrase it. 'Steady, dedicated worker. Self-starting type. Highly motivated. Goal-oriented.' We'll think of something."

He was obviously pleased to hear that. Yet, as we approached the end of our run, his brow seemed to furrow.

"When I'm out on these interviews," he began, "I'm going to be burning a lot of cash on transportation. Do you think there's any way we could work out some kind of free pass? Or a deep discount for multiple trips?"

"Maybe a frequent-flier deal, Frank. Something."

"I'd like to fly down to Texas tonight, in fact. Do you think there's any chance that you could, you know, book my seat?"

I frowned. "I'd love to, Frank. But remember: You sold the Eastern reservations system to Texas Air for a song. Maybe we could book your flight on another carrier."

"Oh, yeah," he mumbled. We came to a halt.

"They want you out of there, Frank," I said. "They mean it, too. It's hurting the company." I paused. "Can I have the movers stop by later today?"

Lorenzo thought about it for a minute. It wasn't an easy time for him. It was, in fact, one of the pivotal moments in his life. The empire that he'd built was crumbling around him, and here he was, facing the ultimate humiliation: getting shown the door by people who had once served at his pleasure. But I was sure he knew when to hold them and when to fold them.

"Can I keep that bust of Churchill?"

"No problem."

"And the J.F.K. autograph?"

"You got it."

He hesitated. "How about the Eastern computerized reservation system?"

I looked at him carefully. I saw the fire, the resolve, the determination. I said, "Hey, Frank, let me buy you a Diet Pepsi."

While he was drinking it, I nipped out to my cellular phone and told Continental to call the cops.

Joe Queenan is a regular contributor to Barron's *and* The Wall Street Journal.

LOYALTY: A spasm of layoffs and downsizing in the 1980s obliterated what was left of corporate loyalty. Now everyone is a free agent. By James Traub

THE MYTH OF A GOLDEN AGE serves a consolatory function amid the whirlwind of change that is real life. Now we are fallen, but once we lived in perfect harmony with our environment. The paradise-and-expulsion story in the realm of corporate management goes as follows: Once upon a time, a job was forever, and employees and top management were bound to one another by a sense of shared obligation. Then big companies unilaterally shattered the compact in a spasm of layoffs, in downsizing and restructuring. Employees responded in kind by looking after their own interests, thus revoking their pledge of loyalty. Now the old order lies in ruins. "For the middle manager," one death-of-corporate-loyalty author puts it, "it is the age . . . of bitter disaffection."

Whatever solace it offers, the Golden Age myth makes the past seem better than it was and the present worse than it is.

Certainly things are not what they were. Look at the titles in your bookstores: *The Economics of Chaos, Thriving on Chaos*. Big business, once thought of as a metaphor for conservatism and plodding predictability, has embarked on a Darwinian struggle for dominance—for survival. Successful firms don't make the promises they used to. Only a generation ago, General Electric offered its employees a sense of security and belonging that would rival a medieval guild's—until "Neutron Jack" Welch took over as chairman from gentlemanly Reg Jones. Within a decade, Welch had sold off or simply closed dozens of divisions, reducing employment by more than 100,000. Now he owns a television network, but he doesn't make televisions anymore. Nothing is assured; everything is provisional. *Speed* and *agility* are the chairman's watchwords; *stability* is a synonym for *paralysis.*

A job isn't forever anymore, and employees know it. A 1987 survey found that only 17 percent of middle managers expected to be with their current employer 10 years hence; even 5 years seemed unlikely to the majority of respondents. In 1979 the UCLA Graduate School of Business and Korn/Ferry International, the executive-recruiting firm, asked senior managers at the *Fortune* 1,000 companies whether they had worked more than 25 years at their current firm. Thirty-one percent said yes. Ten years later, the number was down to 22 percent.

But the figures about top executives don't necessarily vindicate the myth of the Fall. This class, after all, largely commands its own fate. Its members aren't being pushed; they're jumping, exploiting their own desirability. In fact, there has always been mobility in the upper ranks, though no doubt the jumping has become more feverish in recent years. A study of the Harvard Business School class of 1936 found that only 22 percent of the graduates were still working with the same company less than 20 years later; a larger fraction had worked for four firms or more. In *The Organization Man*, written in 1956, sociologist William H. Whyte Jr. quotes a corporate recruiter as saying, "I have to battle with my clients to keep them from changing jobs too much."

The irony, or perhaps the word is hypocrisy, inherent in this phenomenon is that nobody preaches corporate loyalty more and practices it less than top management. What has happened in recent years is that the opportunity to engage in this form of hypocrisy has been tremendously democratized. Last summer *The Wall Street Journal* shed a crocodile tear or two over the tale of Clifford Gookin, a young investment banker and Harvard Business School graduate who rode the wave of instant success and then saw it crash on him. Gookin had earned a fortune at First Boston before jumping to Bear Stearns to earn an even bigger fortune. Nobody was upset: "Loyalty wasn't particularly expected." A year later he jumped back to First Boston. And almost three years later, in the midst of a downturn, he was let go. Young Gookin was shocked, disoriented, angry. He had felt, after his return, "totally dedicated" to his original employer. Apparently he was too bewildered to recognize that the same rules—or lack of rules—that had allowed him so casually to jump had allowed him, just as casually, to be pushed. Corporate loyalty was a virtue only when it was useful.

CORPORATE LOYALTY IS A VIRTUE ONLY WHEN IT IS USEFUL, AND IT IS ONLY USEFUL UNTIL YOU GET A BETTER OFFER.

Few industries, of course, have dispensed with the rules so drastically as investment banking. But the reason Gookin was able to hop back and forth was that he had a skill—arranging financing—that was in demand. He had attained the mobility once reserved for top management.

The world is now full of Gookins. "Knowledge workers," writes Peter Drucker in his latest book, *The New Realities*, "know that their knowledge, even if not very advanced, gives them the freedom to move. In the tremendous reshuffling of American business during the 1980s, many displaced managers and professionals—including older people—found that they *could* get new jobs and, in many cases, better jobs than the ones they had lost. Their knowledge made them free. It is a lesson knowledge people in America—especially the young ones—will never forget."

We are, however, uneasy with our newfound freedom, which is also a form of insecurity, and so we romanticize the past. The modern corporation, we should recall, was founded on the military "command and control" model, and its claims to loyalty, as with the military, involved total identification. "The good of each of us as individuals," as Thomas Watson Sr. put it, "is the greater good of the company."

Watson's IBM really was a benevolent employer, for workers as well as managers. But the firms that have arisen in the last 15 to 20 years to challenge IBM and the other corporate giants—the firms celebrated by theorists of "chaos" such as Tom Peters—are based on an entirely different model, one emphasizing shared decision making and loose hierarchies. Firms like Apple adapted their cultures to the independence and autonomy demanded by a new generation of worker.

It is still instructive more than 30 years later to consult the *Organization Man*, whose central theme is precisely this tension between good-for-me and good-for-the-institution. What Whyte found all around him in 1956 was a willingness to sacrifice autonomy, not to the tyranny but to the benevolence of the organization—a "soft-minded denial that there is a conflict between the individual and society." Whyte noticed that it was the new generation of college-educated workers, the men who today constitute the upper strata of corporate management, who had the fewest qualms about taking the pledge of allegiance to their companies. It was in the next generation that the simple pieties of corporate loyalty would be fractured.

Of course, the equation isn't simple. Practically everyone is torn, like Clifford

FAXPOLL FEEDBACK

'STAND BY YOUR CONVICTIONS. CORPORATE POLICY IS A GUIDELINE NOT THE BIBLE.'

[illegible] Thinking

Personal values change faster than company mores, as many of you pointed out in the poll on loyalty. Corporations can no longer count on your undivided allegiance: Half of you would side with your boss against the company, but some of you wouldn't even extend your loyalty that far. 'Nine months ago, if offered another job, I would have gone to my boss and discussed it without too much thought,' one of you confessed. 'But today I would put my own self-interest first' and take the higher offer.

'If we'd had today's attitude 200-plus years ago, there wouldn't be a U.S.A.'

Gookin, between the desire for security and solidarity on the one hand and mobility and autonomy on the other. People who choose to work in large organizations, especially, tend to place an extraordinarily high value on security. Look at the company Master Watson molded. Quinn Mills, who wrote *The IBM Lesson,* found that IBM's no-layoff policy was the most important factor in determining employee loyalty, even among the most highly skilled and marketable workers. The average annual turnover rate among Silicon Valley engineers is 20 percent, says Mills; among IBM engineers, it is 2.5 percent.

So firms that reward loyalty still get it; the organization man hasn't changed so very much since Whyte's day (though job shifting, for Whyte, was scarcely the sine qua non of organizational independence). Perhaps the point, then, is that most employees need a "reshuffling," in Drucker's phrase, to learn to view their freedom as something more than a nice word for insecurity. And that is just what they have been getting. Even IBM has trimmed thousands through a generous retirement package. In fact, the trend is toward more reshuffling, more chaos. It seems that we will have to rediscover the old-fashioned virtues of individualism and self-reliance.

"The old contract has been decimated from both directions," says David Ulrich, a faculty member at the University of Michigan. "And now the question is: How do you form new attachments without the promise of loyalty?" The quick answer is: the same way you have always formed them with top managers—buy them. Skilled workers as well as managers are now bargaining for signing bonuses, severance agreements, and so on, just as professional athletes do.

But a successful corporation needs more continuity than a sports franchise. There must be a long-term answer. Clearly, a new corporate culture must arise to accommodate new expectations. The old military model is already giving way in many firms to a more egalitarian one. The corporation no longer wants to insist on old-fashioned paternalism, nor is the employee so willing to accept it. In the new world, authority must be more diffuse, more flexible. This is only a way of saying that the democratic principles that rule our civic lives must be allowed to suffuse the corporation. For all our insecurities, would we wish it otherwise? ■

James Traub's book, Too Good to Be True: The Outlandish Story of Wedtech, *was published by Doubleday.*

PHOTOGRAPH BY MICHAEL NICHOLS/MAGNUM

GUTTING EQUITABLE LIFE • THE YABBA-DABBA-DOO CEO • FAXPOLL: THE AGE TRAP

Business
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BULL

How Long Can Bill Gates
Kick Sand in the Face of
The Computer Industry?

Business MONTH

NOVEMBER 1990

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Cover Photoillustration:
Michael Llewellyn
(Gates head shot: Matthew McVay/SABA)

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ercing consumers to pay more for something than it's worth), however, in this country, that seems to be unusual and almost always illegal.

JACOB STEIN
Monsey, New York

A SCIENTIFIC DISPUTE

I WAS SHOCKED BY YOUR ARTICLE ON 3M ("Sweetening the Lure of the Lab," August). While I cannot speak to the accuracy of the remainder of the article, the paragraph dealing with me contains deliberate, defamatory lies. The most egregious is: "He has been known to stare at a tree on 3M's well-manicured grounds for hours before suddenly rushing back to his lab." This is demeaning not only to me but to all professional scientists. If true, it could be used to undermine the credibility of my testimony or recommendations. But it is wholly false, utterly without basis; in 35 years I have never spent 35 seconds dallying on our "campus," let alone staring at trees or the like, there or elsewhere.

Such a personally directed statement should have been checked in advance with the victim.

GEORGE TIERS
Corporate scientist, 3M
St. Paul, Minnesota

Editor's note: Our story was based on information provided by what we considered reliable sources. In no way did we intend to embarrass George Tiers or anyone else at 3M.

HAVE WE BEEN RAILROADED?

IT IS INCREDIBLE THESE DAYS TO READ AN entire article (America & Co., August) detailing our transportation and infrastructure woes without once mentioning the word *rail*!

Everyone recognizes that our roads are in disrepair and badly in need of help. The same for our overcrowded and overworked air-traffic network. But more money thrown at more highways, when we are trying to encourage carpools, when Iraqis send tremors throughout the world's oil markets? More money for larger airports, when tens of millions of people each year waste their time flying ridiculous short hauls between Washington, New York, and Boston?

Our love affairs with planes and cars must cease. High-speed trains run throughout countries with populations greater than BosNYWash. Our high-powered oil and airline lobbies have pulled the wool over the eyes of the American traveler (read: businessman) and in effect force us to wait either on I-95, in the airport lounge, or in a subpar Amtrak car.

ARTHUR NEGRIN
Norfolk, Virginia

FAULTY DIAGNOSES

YOUR AUGUST FAXPOLL RESULTS ("Rx for Disaster") overlook some very important ingredients that contribute mightily to the health-care-cost "disaster." Chief among them is our individual attitude that, when the need for health care arises, inevitably expresses itself as, "I don't care what it costs; I want the best." While this may be a natural response (at least in our society), it certainly contributes nothing to holding down health-care costs.

The media might also accept some of the responsibility for contributing so little to the public's knowledge of the abusive malpractice "industry" that is driving some medical specialties out of business.

ALBERT M. JACKSON
Los Altos, California

IN YOUR FAXPOLL RESULTS, YOU NOTED that "7 percent of you accuse the uninsured indigent—many of whom receive no medical attention at all," for the spiraling cost of health care. As a member of the board of trustees of a nonprofit hospital, I don't think you understand. These people do get care. Federal law demands it. But they do not pay for their care. That cost is shifted to those who have insurance. This cost shift contributes to the spiral.

LEE HOUSTON
General Manager
Ridgeway Clocks
Ridgeway, Virginia

Address letters to Letters Editor, BUSINESS MONTH, *488 Madison Avenue, New York, NY 10022. Or fax 1-800-766-7655. All letters must include the writer's name, address, and daytime telephone number.*

....

Errata: Two credits were omitted in our October issue—Peter Cohen/Custom Medical Stock (page 32) and Tattoo application by Pat Sinatra of Pat's Tats (page 48).

Loyal,

Blind allegiance? Nearsighted, maybe, and very self-interested to boot. Looking out for number one is a major sport at the largest corporations, but still a bush-league game at smaller outfits. "Mutual trust," one of you wrote, "is inversely proportional to the size of the company."

FaxPoll
EXTRA

TROUBLE LOOMS for big companies pinning their hopes on quality improvement: Their employees are much more likely to call such programs a total waste of time or of small benefit. "Management doesn't support the effort," one of you gripes. It's no coincidence that the same crowd believes overwhelmingly that trust is eroding. By contrast, smaller companies offer a hopeful model of quality efforts—less cynicism, more loyalty, greater willingness to work toward common goals. The final tally on quality programs: Two-thirds of you have them, but of those, only 45% rate them a success.

FAXPOLL FEEDBACK: TO THINE OWN SELF BE TRUE

Up to a Point

FaxPoll™

WHO CAN YOU TRUST?

- The bond of trust between employees and the company is eroding.
- What does every employee owe his or her company?
- What does every company owe its employees?
- Your boss makes a decision with which you agree but that conflicts with corporate policy. You're forced to take a stand. You side with:
- Your company's ads make an inaccurate claim against a competitor's product. You would:
- You've just had a lucrative offer from a rival company. You would:

84%

say trust between employees and the company is eroding

EMPLOYEES OWE YOU a fair day's work (89%) and cooperation as company team players (71%). "Loyalty works both ways," one reader observes. "If I'm expendable, I owe the company nothing more than a fair day's work." But a surprising 15% of our respondents write that employees owe their best efforts to the company. Blind allegiance (6%) "has gone the way of dinosaurs," claims a subscriber. If so, people at small companies are stuck in the Mesozoic Era: They're three times as likely to swear an oath of total fealty as employees at the largest corporations.

FAIR PAY AND BENEFITS, say 92%, are what companies owe employees, followed by decent working conditions (81%), feedback (79%), and opportunity for advancement (70%). Intriguingly, only 42% of you cite job security, a weary acknowledgment that lifetime employment, like cheap gas, is a thing of the past. "While the company can't guarantee job security, it does owe employees responsible management to avoid large-scale layoffs," chides one reader.

YOU'D SIDE WITH THE BOSS, declare 67% of you, even if he crossed company policy. Why? It's important to stand up for your convictions and, on occasion, to change company rules. Many of you speak of a bond with your boss that transcends work ("Remember Fawn Hall!"); but even more of you consider such loyalty to be a practical matter ("Your boss is the company. Go over him and you're *dead*"). That same pragmatism plays a big role for the 33% who side with the company: "I don't believe in going down with the ship's captain."

79%
WOULD COMPLAIN TO THE BOSS

12%
WOULD DO NOTHING

6%
WOULD BLOW THE WHISTLE

YOU'D WAIT for a counteroffer from your boss, say 64% of you, if a rival tried to lure you away. You're much more likely to sit down with the boss if you work for a small company than for a large one; employees have a greater sense of loyalty in a tiny outfit and a clearer idea of their worth to the company. A quarter of you would flat out quit your job; only 10% would reject the offer and stay.

OCTOBER PREVIEW: STOP THE PRESS

Whoa! We really took it on the chin when we asked you to rate the media on business stories: A tremendous number of you complain of sensationalism and biased reporting. How much of that grudge comes from personal experience? We'll have the full story for you next month. Meanwhile, are the young out to get you? Turn to page 108.

Vietnamese had no air power, the Soviets had given them antiaircraft guns that made the C-123s not much better than the proverbial sitting ducks.

Ironically, however, it was an American plane that would down Morgan. In the early hours of December 13, during ground fire, a B-57 veered suddenly to the left, clipped Morgan's plane, and sent it into a long, slow spin before it pancaked on the ground. The only passenger to be rescued by U.S. helicopters was the pilot, who had lost consciousness before hitting the ground. His last memory was of several white parachutes drifting slowly through the moonlight.

Jeff was on Christmas vacation when the call from his father came. Immediately, they hired Laotians employed by the U.S. government to begin a search. Accompanied by a guide, the searchers moved from village to village carrying pictures of Morgan, a handsome young man in a uniform, with earnest eyes and a worried, tentative smile. In Tchepone, several peasants pointed to Morgan's picture and nodded. They told the guide that they had turned a man who looked like him over to the communist rebel group Pathet Lao—villagers received money for every capture—and that he had a broken leg at the time.

Convinced that Morgan was alive, Jeff returned home and waited. Life went on for him. He finished a Ph.D. in business at 25, the age at which many are just finishing college, and landed a position as an international economist with a commercial-credit company. He married and divorced. On the job, he prospered.

As the Vietnam quagmire deepened, the families of POWs began to worry—especially the families of the 569 missing in Laos. When the war officially ended, Hanoi released 591 prisoners of war, but not a single one emerged from Laos. Two years after the end of the Vietnam War, Jeff was fed up with waiting for the government to do something. That's when he organized what he somewhat sheepishly refers to as his "Rambo mission."

In 1975, Jeff was an assistant vice president at Chemical Bank in the Foreign Exchange Advisory. While his colleagues spent their vacations playing golf, he spent his arranging a guerrilla rescue mission to Laos. With the aid of a senior Royal Lao officer, Jeff was ready to storm the camp where he believed his brother was being held. But Cambodia fell as they were setting off, leaving Jeff to wonder whether he himself would ever get out of Laos. "I used my few remaining American dollars," he remembers, "to hire a canoe and cross the Mekong River."

Had Jeff made it to the camp, he might have found his brother. Not long after his aborted rescue attempt, the Pathet Lao released Rosemary Conway, a captive who had worked for the U.S. Agency for International Development. She told the world that she had been held along with several other Americans—one of whom was Morgan Donahue.

In 1987, Jeff requested—and received—a job in Union Carbide's Hong Kong office, which is relatively close to Laos. The company, he says, 'has been very supportive of my efforts.'

Since then, Jeff has focused his mind on the stream of refugees escaping from poverty-stricken Laos, where the life expectancy is 42. Many who get out tell somber stories of gaunt Caucasians living under constant guard in Laos's countryside. Jeff has developed a network of Laotian sources who say Morgan lives in a rural province, is married, has two children, and works with water buffalo.

It is possible Morgan prefers to live in Laos and does not want to come home. Jeff acknowledges this. "I've thought about that," he says, "but I need to see him and hear him say it." He has traveled to Laos several times since 1973, though his movements are greatly restricted. At home, he organizes and speaks on behalf of many MIA/POW consciousness-raising groups, and he's become one of the most visible spokesmen for the issue. In 1984 ABC's *20/20* devoted an hour-long special to MIAs, using extensive footage of Jeff in Laos. He's spent $300,000 on various schemes for getting to his brother. But thus far reward offers, humanitarian aid, and endless publicity on the issue haven't produced his brother, though they've brought Jeff some peace of mind.

The federal government, unfortunately, hasn't been much comfort at all. Since 1978, the Pentagon has considered all MIAs "presumed dead," even though a 1986 Pentagon panel concluded that "a large volume of evidence points to the likelihood that Americans are being held" in Southeast Asia. The panel's report, to Jeff's dismay, is classified, along with thousands of other documents pertaining to the MIA issue. The government's lack of cooperation has embittered him greatly. At rallies, he often wears a T-shirt that reads: "I Love My Country, But I Hate My Government." Even if Congress votes to declassify those documents—as it soon may—it's unlikely his attitude toward Washington will ever change.

Except, that is, for the one place where it could—the Vietnam War Memorial, where Morgan Donahue's name appears along with some 60,000 others. Unlike most of the names, however, Morgan's has a tiny cross etched in the black marble next to it. The cross means "Missing in Action." For Jeff it has made all the difference in the world. "The day I look forward to the most," he says, "is the one when I chisel his name and that cross off of the wall. What a day that will be." ■

Rebecca Johnson is a staff writer at Allure *magazine.*

BUSINESS MONTH, Publication Number (ISSN: 0892-4090), NOVEMBER 1990, Vol. 136, No. 5. Copyright © 1990 by Goldhirsh Group, Inc. All rights reserved. Published monthly. Editorial and advertising offices at: 488 Madison Avenue, New York, NY 10022. Telex 592-379. Tel. 212-326-2600. Subscription rate for U.S. and possessions, 12 issues for $24; foreign airmail, $45. Please state title and company when subscribing. Publisher reserves the right to refuse nonqualified controlled subscriptions. **POSTMASTER: Send address changes and all mail to: BUSINESS MONTH, P.O. Box 55982, Boulder, CO 80322.** In case of change of address, send an address label from a recent issue. Second-class postage paid at New York, NY, and at additional mailing offices. The contents of this publication may not be stored or reproduced in any form without consent of copyright owner. Requests for permission should be directed to: Permissions Manager, BUSINESS MONTH, 38 Commercial Wharf, Boston, MA 02110. Tel. 617-248-8000. BUSINESS MONTH is a registered trademark of Goldhirsh Group, Inc. Printed in U.S.A. The BUSINESS MONTH FaxPoll is a service mark of Goldhirsh Group, Inc.